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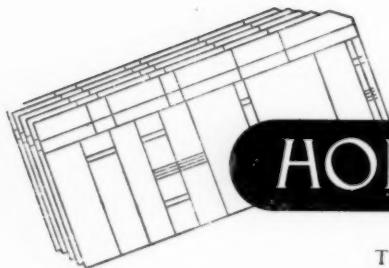
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## Professional Notes

### Wage Restraint

THE STATEMENT OF THE EXECUTIVE OF THE TRADES UNION CONGRESS, BASED UPON a report of its special economic committee, shows a welcome access of statesmanship. It could not have been expected some months, or even weeks, ago that the leaders of the trade unions would urge upon their members a standstill on wages, especially when a rise in the cost of living is imminent. Even though there are escape clauses, the T.U.C. has made a contribution to the anti-inflationary policy the importance of which should not be minimised.

One escape clause provides that if the cost of living rises more than six points above its present level of 112, the recommendation is abrogated that unions with wages governed by cost of living agreements should waive their rights and that other unions should not make claims for rises in wages.

The policy of the T.U.C. is more far-sighted than might have been expected, but it remains to be seen how the constituent unions will react to the recommendations. One of the largest unions, that of the engineers and shipbuilders, has already decided to press ahead with a claim which would add some £120 million a year to the wages bill. Other unions show signs of much restiveness. The mistaken notion persists that it is possible to "squeeze" profits for the benefit of wage earners. Its latest form is a proposal by the Electricians' Union that a tribunal should be set up to examine profits. All companies would be obliged, under this proposal, to make returns to the tribunal showing the uses to which they propose to devote undistributed profits. The extreme suggestion is then made that "the tribunal would be empowered to confiscate any sum which could not be justified. This money could be transferred . . . to provide loans to under-capitalised essential industries or to the Treasury to reduce purchase tax on essential consumer goods or to increase subsidies." No doubt this particular proposal should

not be taken very seriously but it does indicate the misunderstandings which exist regarding the amount and use of company reserves. It shows also that, since there is no gainsaying the fact that distributed profits, after taxation, have decreased since before the war by 18 per cent., while wages, after taxation, have increased by 23 per cent., the attack is now being switched against undistributed profits, the fund from which the maintenance and re-equipment of British industry must, in present conditions, be financed.

### Net Profit in Published Accounts

The following extracts from a recent article in the *Investors' Chronicle* are of special interest to accountants.

"In their eagerness to abide by the letter of the new Act many auditors, not surprisingly, have entirely failed to catch its spirit. . . . This is to a large extent the fault of the new Act, for the chief information the investor wants from a set of accounts is a figure of normal net profit, and nowhere in the Act is the provision of such a figure insisted upon. The Act does, however, make it compulsory for companies to show separately the amount of any special credit, where this is significant, and to state the amounts debited for depreciation, income tax and so on. Clearly it does this only because it attaches so much importance to the end-product, namely, the amount of bare net profit properly attributable to the year under review left available for shareholders after the deduction of all charges. Yet many accounts, while they have to provide all the ingredients for the pudding, refuse to serve the pudding up. They will, for instance, arrive at a 'profit' or a 'balance' after depreciation and certain other charges; carry this down to the appropriation account; add the amount brought in from the previous accounts; deduct income tax, reserve appropriations and dividend payments already made or to be recommended; and then show the sum left to be taken forward. To get at the true net profit of our definition involves, in these circumstances, some figuring. . . .

"Accounts of this sort may be regarded by their compilers as noble examples of accounting finesse. Our considered view is that (most often

unwittingly) they defeat the aims of the Companies Act. Having mixed the ingredients the auditor washes his hands, rolls down his sleeves and departs, leaving the shareholder to make the best of the mash in the bowl. Generally we believe the auditor has no idea of the shareholder's agony of mind as he surveys the concoction. So we venture to put the following recommendations on record, with the explanation that what we call the 'profit and loss account' and the 'appropriation account' nowadays frequently appear under the one heading of 'profit and loss account' even though still being kept distinct:

- (a) Exceptional revenue, whether arising as the profits of previous years or in other ways, should be credited in the appropriation account, and the taxation (if any) attributable to that revenue should be debited in the appropriation account.
- (b) Subject to this, tax should be charged in the profit and loss account at an amount appropriate to the profits of the company's financial year.
- (c) All 'provisions' should be debited in the profit and loss account.
- (d) All 'reserve' allocations, other than the amount passed to the future tax reserve, should be debited to the appropriation account.
- (e) Once these simple rules are observed the balance taken down from the profit and loss account to the appropriation account should be boldly described as the 'normal net profit' of the year."

The *Investors' Chronicle* does not appear to suggest that the Eighth Schedule and connected parts of the Companies Act should be amended to give effect to these proposals. In truth, it would seem that some further experience of the working of the Act is needed before an amending Act is passed. But as suggestions to the accounting profession—which they are apparently intended to be—the points put forward in the quotations we have made are cogent enough and deserve the closest and most sympathetic attention of the profession. On many occasions we have ourselves complained, in our feature "Points from Published Accounts," of the practice whereby some public companies take into credit obviously exceptional and extraordinary items of revenue before striking the figure which appears in their accounts as the "normal net

profit"—or the figure which, if not thus described in so many words, is nevertheless the amount which the casual and even the careful reader of the accounts would take as the net profit ascribable to the year's operations. (We voice one of these complaints this month in respect of the accounts of the *Odeon Theatres* group.)

The suggestions of the *Investors' Chronicle* go beyond this point, however. For example, following through their implications it will be seen that they involve that a "provision" should be made (not a "reserve") for tax on the current year's earnings which has not legally accrued at the accounting date. Or, in other words, taxation should be recognised as a charge against revenue, not an appropriation of profits. This reversal of the "old" accounting view is indeed coming increasingly into favour in the accounting profession. But it will be doubted by many accountants whether the time has yet arrived when every company should be obliged, on pain of universal disapproval (if not of the law's displeasure), forthwith to take out of the year's gross profits all the difference between the tax legally accrued at the accounting date and the full tax that will eventually be payable on the profits earned to that date. At the very least, several years will be necessary before every company will have been able to afford to make the transition over the period, even though many have already completed it.

Taxation does not provide the only difficulty in carrying through the precepts of the *Investors' Chronicle*. To take another example, individual judgment must always be exercised in determining what constitutes an "exceptional" or "extraordinary" item of revenue. Sometimes the criteria are obvious enough but sometimes they are open to sincere differences of opinion.

There must always remain some variations in accounting practice for, as has often been said, accounting is an art rather than a science. Probably these variations will for some time inevitably comprise the matters to which the *Investors' Chronicle* draws attention. But that journal's criticisms seem indisputably to point to the main lines upon which improvement in the form of published accounts is now

called for. We hope in a subsequent issue to define more closely than has been possible in this note the details of the advances which in our view the profession should now advocate—and, as far as lies in its power, adopt.

### Resale Price Maintenance

The President of the Board of Trade has discussed with representatives of the Federation of British Industries and the National Union of Manufacturers the report of the Resale Price Maintenance Committee (see *ACCOUNTANCY* for July, 1949, page 170). They said that they were unable to advise their constituent bodies on the question, since resale price maintenance took a variety of forms in different trades. The President of the Board of Trade is proposing, therefore, to discuss the issue directly with individual trade associations. He is proposing to ask the various associations which have schemes of price maintenance what they have done or are planning to do about controls and restrictions. The Government will decide upon its course of action in the light of their replies.

### Valuation of Films in Accounts

There is considerable ambiguity and diversity in the methods of valuing films in balance sheets. We therefore welcome the announcement by the President of the Board of Trade that he is to ask the Standing Consultative Committee dealing with matters arising in the administration of the Companies Act, 1948, to consider this and associated questions.

The obfuscation usually produced by this question of the valuation of films is not cleared by the accounts of *Odeon Theatres* group referred to on page 334 of this issue of *ACCOUNTANCY*.

A "profit" of £1,296,466 on the valuation of films in stock is taken into credit in the profit and loss account. In earlier accounts of *Odeon Theatres* the practice was apparently to value each film in stock *either* at a valuation based on box office anticipations *or* at cost, whichever was the lower. Last year, each film was apparently valued on the basis of expected net box office receipts. The result was, as is stated in the directors' report:

Contrary to previous practice, estimated surpluses on successful films have

been taken into account and have been offset against estimated losses on unsuccessful films.

It is only fair to add, however, that in the aggregate unreleased and released films have been shown at estimated realisable value, which is lower than cost.

Last year, it had been stated that this group would in future value its stock of films by a still different method. The cost of each film was to have been written-off over its estimated life. However, since costs were not being met by receipts, this method would have resulted last year in the carrying forward of losses into subsequent years, which was clearly undesirable. The directors therefore discarded this proposed "amortisation" basis of valuation.

This single example of Odeon Theatres certainly seems justification enough for the reference of the question of film valuations to the Companies Act Committee.

### Local Government since the War

Among the papers delivered at the Country Conference of the Chartered Institute of Secretaries, held at Brighton recently, was one entitled *Local Government since the War*. The speaker was Mr. Ernest Long, F.C.I.S., F.S.A.A., F.I.M.T.A., Member of Council and Deputy Chief Accountant, British Electricity Authority, and formerly Secretary of the Institute of Municipal Treasurers and Accountants.

Mr. Long managed to present, within the compass of a pamphlet of 16 pages, a panorama of the events of the past four years set against the background of 1888-1939. Local authorities reached the zenith of their powers during the decade 1935-1945. Thereupon there ensued "the spate of reconstruction and planning proposals that burst forth to signal the return of peace." The awakening of the social conscience led to interference with the administration of education, health, poor relief, police, planning, fire and roads services. Either powers in respect of these services were lost by local authorities generally, or they were acquired by major bodies—the county councils—to the exclusion of borough and district councils, which as organised communities look not too

kindly upon the inroads made into their prerogatives. All this in the interests of uniformity and elaboration of service, with the State shouldering a much greater share of the financial burden, and, as a corollary, a more meticulous control of services.

The surrender of local autonomy has been hastened also by the programme of nationalisation of public utilities. Some mitigation has been given by the introduction of civic restaurants, entertainments, information and publicity, and extended powers concerned with the provision of houses.

### Informers

A healthy public opinion has always classed informers, along with *agents provocateurs*, as a low species of humanity. It is a sound instinct which has caused an uproar over the recent announcement by the Chancellor of the Exchequer that rewards will be paid to those informing on offences against the Exchange Control. The argument that the informer is doing no more than his duty in assisting the proper operation of the law is ingenuous, for he is in fact actuated not by respect for the law but by motives of personal gain. It is bad enough where, as with information given about breaches of the Sunday observance laws, the informer has to come forward in person. But in the new dispensation the informer of offences against the Exchange Control will remain anonymous.

The discussion on this unsavoury announcement of the Chancellor has recalled that rewards are also paid for information given to the Inland Revenue about tax offences—and that this practice has existed for very many years. This long-established precedent does not, however, make the Chancellor's announcement any more acceptable, but only suggests that when, as we hope, he speedily reverses his decision about Exchange Control offences, he will also abolish the objectionable practice of rewarding tax informers.

### Rents of Council Houses

That a local authority has a duty to its ratepayers as well as to its tenants is a general proposition with which few would quarrel. But any doubt that may have been entertained on the ques-

tion whether in law preference is to be shown to the tenants at the expense of the ratepayers has now been resolved in favour of the ratepayers by the decision of Mr. Justice Romer in *Belcher v. Reading Corporation*.

The Reading Corporation, after considering all relevant factors—such as the increased cost of labour and materials, the level of rents of non-council houses in the district and the effect that any rise in rents might have on the tenants of council houses—determined to raise the rents. The additional rent was likely to weigh very heavily on some of the tenants.

The Corporation had made a slight reduction in the rise in rents originally contemplated. This they were able to do by freeing the tenants from the encumbrance of idle loan charges on lands, buildings, roads and sewers, and by abandoning an anticipated surplus of revenue. Incidentally, it would appear that once any such surplus appeared on the housing revenue account, it would have been beyond the authority's powers to apply the surplus in reduction of the rents of council houses.

The Court in reviewing the facts considered that there was no justification for the contention that the council had acted improperly or *ultra vires* or that it had unreasonably disregarded the interests of the tenants. It was the duty of the council to maintain the balance equally between tenants and ratepayers; the majority of ratepayers in the district were people of means comparable with those of the tenants themselves. In the circumstances, the council had carried out this duty. The rise in rents was due, the Court determined, not to any unreasonable disregard of the tenants' interests by the council but to the economic pressure of existing conditions from which no class of the community was free at the present time.

### Codification of Income Tax

On his appearance before the Public Accounts Committee earlier in the year, the Chairman of the Board of Inland Revenue made it clear that the codification of income tax law was not a completely dead issue. He said:

"Eight or nine years were spent in the 1930s in arriving at a new codi-

fication of the income tax law by a number of eminent gentlemen under Lord Macmillan. Unfortunately it proved to be unworkable when the Codification Bill was produced. It never reached Parliament. Naturally we have given very careful consideration, under the aegis of the Parliamentary authorities, to what can be done to get this task tackled again. I do not know whether any announcement has been made about it; probably it has not; but it has been under careful consideration and I am hopeful that some steps may be possible."

#### Deferment of Legal Aid Scheme

It will be remembered that one of the smaller economies decided upon by the Government was a saving of £1 million per annum on the proposed legal aid scheme. It has now been announced that a large part of the scheme will be deferred. All the provisions of the Legal Aid and Advice Act, except those providing for legal aid in Supreme Court proceedings, are held over. The Solicitor-General has stated that it is too early to say whether the intended legal aid in Supreme Court proceedings will be introduced by July 1, 1950, as originally planned, but he pointed out that the deferment of the other provisions of the Act might make it possible to advance the date for the commencement of this limited part of the scheme. (See ACCOUNTANCY for December, 1948, page 275, for a statement of the full provisions of the scheme.) The Law Society, which has been entrusted with drawing up the details of the new scheme and which will be responsible for much of its operation, will now have to pigeon-hole a good deal of its preparatory work and will have to make a new start in planning for the operation of the truncated scheme.

Mr. R. E. Yeabsley, C.B.E., F.C.A., F.S.A.A., partner in the firm of Messrs. Hill, Vellacott & Co., has been appointed by the Lord Chancellor as auditor of the accounts which will be kept by the Law Society for the legal aid fund under the scheme.

#### Income Tax Evasion

The Secretary of the Inland Revenue Staff Federation, Mr. Douglas

Houghton, M.P., has suggested that income tax evaded could be estimated at about £100 million a year. He said that it was surprising to find that income tax recovered by the Inland Revenue from fraud or evasion amounted in 1947-48 to only £4 million, which was hardly higher than pre-war when the total of tax assessments was very much less. The Financial Secretary to the Treasury replied that the Inland Revenue were confident that the amount of tax evaded was nothing like the figure suggested by Mr. Houghton. The reason for the evasion of tax was, he said, the shortage of Inspectors. At present there were 1,430, but by 1951 there would be about 1,630, which would allow investigation to be more thorough. It should be realised that the State had a long arm so far as income tax was concerned, it could go back over the years and it would catch people eventually. The Inland Revenue had appointed a committee last February to see what could be done and in three districts, which he would not name, a special drive for the recovery of taxes was being made. Results were expected shortly. It appears to us that the Inland Revenue authorities are perhaps rather too optimistic about the extent of evasion, and we hope their "drive" against it can soon be intensified.

#### Errors in P.A.Y.E. Assessments and Deductions

A sample check made by the Inland Revenue into Schedule E assessments shows that in the tax year 1947-48 the number of cases in which there were errors amounted to 7.7 per cent., the amount of the average error being roughly £6 either way. These figures were given recently by the chairman of the board before the Public Accounts Committee and he explained that they were due to pressure upon temporary staff to complete assessments.

This sample check is, of course, distinct from the audit which is made of employers' deductions of tax under P.A.Y.E. The chairman said that this audit covers 1½ per cent. or thereabouts of employers' returns, but the extent of errors revealed by the audit was not divulged.

#### Tax Inspectors and Collectors

Whether the division of functions between Inspectors and Collectors of Taxes should be modified has been the subject of investigation by a Committee of the Board of Inland Revenue. The Chairman of the Board, Sir Eric Bamford, revealed this in answering questions before the Public Accounts Committee earlier this year. It was suggested by the committee that additional work or delays might be caused by the division of functions. Sir Eric replied that the question had been considered a number of times in the history of the Inland Revenue but was being examined further.

#### Electronic Accounting?

According to American reports, new electronic machines and calculators hold out the hope of a revolution in clerical and detailed accountancy work. It is already possible to construct electronic machines for transmitting sales records from the cash registers of a department store to a central calculator which records and analyses the information and prints monthly bills and other statements. Electronic computers for pay-roll calculations and other accounting operations are, it is stated, now in production. Such machines will, for example, absorb from punched cards details of pay rates, deductions, and so on, and will compute the results ten times faster than the punched card machine itself.

"If," says the *Industrial Bulletin of Arthur D. Little, Inc.* (published in Cambridge, Mass.), "all the repetitive clerical work involving customers' accounts, inventories, pay-rolls, tax deductions and statistics could be done by machines, the result would be comparable to the advantage of machine tools over hand labour on production."

Electronic machines may have other uses in the economic field. "Economists at Harvard are using a computer to study the complex effects on industry of any particular upset to the economic equilibrium, such as a decision to enlarge the Air Force. The computer makes it possible to trace down such remote repercussions as the demands on the shoe industry for the pilots' boots, and on the construction industry for more shoe factories, if they are needed."

# ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

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## Mr. Bevan's Granny

MR. ANEURIN BEVAN HAD SOME DISapproving comments on accountants to make the other day. "A very large number of the so-called steel-masters are accountants," he said, "using the brains of technicians. I know some of these accountants. They were brought into the steel industry by the banks, and they know as much about the making of steel as my granny."

At about the same time as the Minister of Health delivered himself of this homely piece of criticism, there appeared the report and accounts for 1948-49 of the Overseas Food Corporation. The certificate of the auditors appointed by the Minister of Food contained the following illuminating passage :

We are unable to report that in our opinion proper books of account have been kept by the corporation and that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit, because :

(1) for the reasons set out in the explanatory notes, proper records of the expenditure relating to both fixed and current assets were not maintained ;

(2) there have been many instances where documents in support of transactions recorded in the books have not been produced to us.

Mr. Bevan might fail to see how the fact that the East African groundnuts scheme has been operated with a travesty of an accounting organisation reflects upon the aptness of his remarks. Yet even he is probably aware that something is desperately wrong in the state of Tanganyika when up to March 31 last some £23 million had been spent upon the groundnuts scheme and last year's crop fell short of the tonnage of seeds planted ! Mr. Bevan's granny would not, we are sure, allow that kind of horticulture in her back yard. No

doubt, even if the Minister of Health could bring himself to peruse such unworthy documents as the report and accounts of the corporation, he would fail to find any evidence that managerial or technical control was inefficient largely because financial and accounting control was, for a very long period, virtually absent. But Mr. Bevan's grandmotherly simplicity will hardly be shared by any other reader of the report and accounts.

The indisputable truth is that the sorry situation of the Overseas Food Corporation results from the impetuous pushing ahead of the scheme by technicians who had little or no regard for the larger financial issues. They were allowed to act so irresponsibly for so long a period because the financial side of the corporation was ineffective and the accounting organisation insufficiently staffed to produce quickly enough essential documents and accounts. Those documents and accounts, produced in time, would have enabled the higher administration to act and, even more important, would have informed Parliament and the general public of the facts upon which they could have insisted upon action.

It would hardly be worth devoting attention to Mr. Bevan's outburst about accountants unless it illustrated a disposition, much more widely shared, to denigrate the importance of financial control and the validity, as a guide to business decisions, of the financial outcome of the operations of industry, whether nationalised or private. Yet without the money measure we should do as well if we based ourselves upon intuition—as, indeed, one Government spokesman recently claimed we should—as upon the criteria of the technicians. The "meaningless symbols" of money—

as they were once termed by another member of the Cabinet—have a habit not only of tinkling but also, as the groundnuts scheme has shown, of making a resounding clash from time to time.

The report and accounts of the Overseas Food Corporation state that the inadequacy of the accounting organisation was early recognised but staff could not be obtained quickly enough to set it right. In circumstances such as these, it is surely abundantly clear that so far from disparaging the accounting profession, the official attitude should be one of encouragement.

The accountant who is in practice on his own account has, indeed, no cause to welcome the great demand for accountants flowing at present from official and semi-official bodies, however much it may be appreciated by the recently qualified junior. Dispassionate outside observers see the dangers of the situation. Thus, the *Economist* said, in recent issue :

Nationalisation, and the new developments in cost accounting and scientific management, have combined to improve the salaries for juniors by something like 150 per cent. since 1938. Experienced accountants, at present, can earn high salaries in industry. So far as can be foreseen, this trend towards salaries and away from fees is a permanent feature of accountancy ; yet it is the office of the practising accountant which forms the nursery for the very distinctive set of professional methods and codes which is so demanded. . . . The decline in the strength of the independent profession is not an urgent matter of to-day and to-morrow. . . . But it should be a matter of genuine concern in a democratic society, for it is unquestionable that the maintenance of high standards of competence and conduct depends upon the private fee-earning practitioner, endorsed by a corporate professional body.

Surely the accountancy profession as a whole, and the practising accountant in particular, may reasonably expect from members of the Government an understanding of problems such as these which to-day confront the profession, perhaps even some co-operation in meeting them, rather than baseless criticisms and innuendoes. For as the groundnuts scheme has shown, the profession's problems are ultimately the Government's problems also.

# The Accounts and Audit of Building Societies

By S. W. HANSCOMBE, M.B.E., A.S.A.A.

THE EARLIEST KNOWN BUILDING SOCIETY WAS ESTABLISHED over one hundred and sixty years ago but the rapid growth of the societies took place after the first world war, and with the exception of the period of the second world war their steady and impressive expansion has continued.

Building societies are bodies established for raising by the subscriptions of members a stock or fund for making advances to members out of the funds of the society upon the security of freehold or leasehold estate by way of mortgages. They consist of terminating and permanent societies and incorporated and un-incorporated societies. A terminating society is one which by its rules terminates at a fixed date or when a result specified in its rules has been attained. A permanent society is one which has not by its rules any such fixed date or specified result at which it shall be terminated. The majority of the societies are now incorporated and of the permanent type and therefore this article deals primarily with permanent incorporated societies.

There are two classes of members, investing (or unadvanced) members, who subscribe capital and in return receive dividends or interest, and borrowing (or advanced) members, to whom loans are made upon mortgage of freehold or leasehold houses and other properties and who pay the society interest for their accommodation.

Societies may also be authorised to receive money on deposits or loans from members, or other persons, corporate bodies and joint stock companies.

## INVESTMENT SHARES

The rules must set forth, *inter alia*, the manner of raising the stock or funds of a society; the terms upon which unadvanced subscription shares are to be issued; the manner in which the contributions are to be paid to the society and withdrawn by the members; the terms upon which paid-up shares, if any, are to be issued and withdrawn; and whether preferential shares are to be issued, and, if so, within what limits.

Fully paid shares may be any denomination, such as £1, £10, £25, etc., according to the rules of the society concerned. Subscribing shares may be shares whereby the investing member contracts to pay a regular amount at stated intervals until the share has become fully paid, or they may consist of partly paid shares which can be converted into fully paid shares by payments at any time at the wish of the member. A few societies issue preference shares.

Dividends on shares may be credited to the shareholder's account or paid by a dividend warrant. Under a special arrangement with the Inland Revenue dividends are paid subject to income tax thereon being borne by the

society. Investors must include these dividends in their returns of total income. No further tax is payable by the recipient nor can a refund of tax be claimed, but the actual dividends will be included for the purpose of charging sur-tax.

The amount which may be invested in building societies varies, but there is a maximum of £5,000 generally imposed in accordance with the terms of the special income tax arrangement that the total holding of any one investor (husband and wife being treated as one for the purpose) shall not exceed this figure.

## DEPOSITS

Depositors are secured creditors and rank in priority to shareholders in a winding-up. Under Section 15 (2) of the Building Societies Act, 1874, the total amount which may be received on deposit or loan at any one time shall not exceed two-thirds of the amount for the time being owing to the society by mortgages from its members, and under Section 15 (1) of the Act of 1894 societies shall not accept any deposit except on the terms that not less than one month's notice may be required before repayment or withdrawal. The rules must also set forth whether the society intends to borrow money and, if so, within what limits not exceeding those prescribed above.

In view of the greater degree of security enjoyed by depositors interest is usually at a lower rate than that applicable to shares. It is paid on the same basis as share dividends—income tax is borne by the society. Withdrawals may be made in accordance with the terms agreed with the depositor, the rules or bye-laws of the society, and the provisions of Section 15 (1) above mentioned.

A pass book is issued to each depositor and every deposit book or acknowledgment or security of any kind given for a deposit or loan by a society must set out the whole of Sections 14 and 15 of the Building Societies Act, 1874.

## ADVANCES ON MORTGAGE

Advances may be made to members and non-members on the security of first mortgages on freehold and leasehold properties. The rules of every society must state the manner in which advances are to be made and repaid; the deductions, if any, for premiums and the conditions upon which a borrower can redeem the amount due from him before the expiration of the period for which the advance was made.

Societies are prohibited from advancing on second mortgage unless the prior mortgage is in favour of the society making the advance.

The building society repayment mortgage under which the borrower repays capital together with interest by

periodic instalments over an agreed term of years is still the most popular form. This may be varied in approved cases by allowing borrowing members to pay interest only for a term of years on the whole or a part of the advance. Another alternative which has gained considerable popularity in recent years is the endowment assurance scheme under which the borrower pays interest only on the advance, but in addition charges by way of collateral security an endowment assurance policy for a sum not less than the amount borrowed, the mortgage being repaid out of the proceeds of the policy on maturity or the borrower's earlier death.

Advances in excess of the normal may be made subject to the provision of suitable collateral security, the acceptable types of security being laid down in the Act of 1939.

The method of charging interest varies somewhat, but whilst a few societies calculate interest on monthly rests, a large number work on annual balances.

Further advances may be granted to enable borrowers to carry out repairs, alterations and decorations to their property or for any other sufficient reason.

#### INVESTMENT OF SURPLUS FUNDS

Any society may from time to time, subject to its rules, invest any portion of its funds not immediately required for its purposes upon real or leasehold securities or in the public funds or in trustee securities.

#### ACCOUNTS

Each year accounts must be prepared of the receipts and expenditure of the society and a general statement of its funds and effects, liabilities and assets in the form prescribed by the Registrar of Building Societies. They must be countersigned by the secretary or other principal officer and certified by the auditors, who must examine all mortgage deeds and other securities.

Every member, depositor and creditor for loans is entitled, if he asks for it, to receive a copy of the annual statement in the form prescribed by the Registrar; and a copy in the same form must be presented to the annual meeting and suspended in a conspicuous place in every office of the society. The copy on the official form A.R.II, together with a return of properties sold, must be sent to the Registrar within fourteen days of the annual meeting or within three months of the close of the society's financial year, whichever period expires first. If the accounts have been presented to the annual meeting before submission to the Registrar a certificate to this effect must be furnished by the chairman of directors in the space provided.

In preparing accounts for publication any account or item may be omitted if the entry would be *nil* or if the omission is authorised by a footnote. Instructional words printed in italics may also be omitted.

The prescribed form of account requires societies to publish the following :

#### Shares Account

#### Deposits and Loans Account

showing separately receipts and payments in respect of

(a) deposits and loans

(b) bank loans and overdrafts.

#### Mortgage Account

#### Investments Account

#### Profit and Loss Account

Directors' fees are to be shown separately and profits and losses on investments are to be excluded.

#### Appropriation Account

showing profits and losses on investments and other capital profits and losses.

#### General Reserve Account

#### Other Reserve Accounts (if any)

#### Balance Sheet

In place of the heading "Other Liabilities and Contingency Accounts" the revised form of account requires "Other Liabilities" and "Provisions" to be shown separately. Under "Other Liabilities" should be included any known amount which is due at the date of the balance sheet. "Provisions" should include any amount written off or retained by way of providing for depreciation, renewals, etc., or set aside to provide for any known liability of which the amount cannot be determined with substantial accuracy, including taxation, dividends and interest to shareholders.

#### Schedules

In three parts (or as many as may be applicable).

In addition, the published accounts of most societies include a report of the directors and it is recommended that in this report :

- (a) the word "profit" should never be used to denote the balance before providing for payment of dividends or interest to shareholders;
- (b) it should show separately the amount brought forward, the surplus for the year and the manner in which it is disposed of by way of dividends, transfer to reserve and amount carried forward;
- (c) attention should be drawn to any items of a capital nature which are included in the income for the year.

#### TAXATION

##### Income Tax

Building societies have for over fifty years been assessed for income tax under arrangements entered into by them with the Inland Revenue. The arrangements have varied from time to time but the broad principle is that a society accounts for tax in respect of its distributions to its investors in a sum estimated to be equal to the aggregate of the individual liabilities on such distributions. On the "excess of whole profit," arrived at by formula, the society is liable at full standard rate.

##### Profits Tax

While building societies are assessed to profits tax on the same basis as other trades or businesses, there is provision for an overriding maximum of liability of 6 per cent. of the adjusted profits, computed without any deduction for interest paid on money borrowed by the society from its members or depositors (See Finance Act, 1947, Section 42, and Finance (No. 2) Act, 1947, Section 7 (3)).

The Building Societies Association recommends societies to make provision for taxation in their annual accounts as follows :

##### Income Tax

Provision should be made in the annual accounts for at least the minimum or legal liability. That is, the provision should include that part of the liability of the fiscal year proportionate to the end of the society's accounting year.

Where a society is on a preceding year basis of assessment, if the earnings of the actual year are greater than those of the preceding year then provision for tax should be based on such greater earnings.

Provision should be built up for tax at least in respect of the liability for the period between the end of the society's current financial year and the following April 5 to cover any contingencies of diminished earnings and variation in tax liability.

#### Profits Tax

Provision should be made in the annual accounts for the full amount of the liability to the date of the balance sheet based on the profits of the period under review.

#### Generally

The profit and loss account should bear a full twelve months' charge in respect of taxation. Any additional provisions should be debited to the appropriation account.

In the case of income tax deducted from investment income it is recommended that societies should not carry this forward in their accounts as an asset.

#### AUDIT

The rules of every society must state the manner of appointing, remunerating and removing the auditors, one at least of whom must be a person who publicly carries on the business of an accountant. The rules must also provide for an annual or more frequent audit of the accounts and inspection by the auditors of the deeds of all mortgages and other securities belonging to the society.

The audit programme will be prepared having regard to the size of the society, whether its organisation embraces

branches and/or agencies, and the system of internal check in force.

Every auditor, in attesting any such annual account or statement, must either certify that it is correct, duly vouched, and in accordance with law, or specially report to the society in what respect he finds it incorrect, unvouched, or not in accordance with law. He must also certify that he has at that audit actually inspected the mortgage deeds and other securities belonging to the society, and must state the number of properties with respect to which deeds have been produced to and actually inspected by him.

Where the auditors have been unable to examine the deeds for the reasons given below, the Registrar has decided that he will raise no objection to their certificate being varied by adding the under-mentioned words, whichever may be applicable, at the end of the statutory form of certificate :

- (a) " except . . . deeds held in the Land Registry " ;
- (b) " except mortgages redeemed after the end of the financial year, in which cases we have verified the payment to the society of the amount required to redeem the mortgage " ;
- (c) " except . . . deeds held by solicitors in the normal course of business. " "

Building societies are required to keep records showing the value placed upon mortgage securities together with the name of the surveyor and particulars of any additional security taken. This information will be contained in the files relating to the individual mortgage applications and the mortgage register.

## Points in Practice

### BONUS SHARES

THE RECENT INSTRUCTIONS OF THE CHAN-cellor to the Capital Issues Committee have arrested the lively activity of recent months in the capitalisation of reserves and undistributed profits by the issue of bonus shares to existing shareholders.

The procedure and implications are still of interest to accountants, although for a period of unknown duration their interest can only be academic, apart from small issues. Attention must be drawn to the fact that there is now no absolute ban such as existed during the war period. Permission of the Capital Issues Committee is only necessary when the amount involved is over £50,000, so that the present restriction need not deter companies from proceeding with issues for small amounts provided the total amount of capital commitments which would require Capital Issues Committee consent do not exceed £50,000 in any one year.

#### Procedure for Small Issues

It may, therefore, be of interest to consider the procedure for these issues.

The company must have available undistributed profits or reserves equivalent to, or preferably in excess of, the proposed issue. Care must be taken to see that the issue is not excessive bearing in mind that future trading may result in losses, when it would be preferable to have in hand undivided profits for the purpose of avoiding a deficit balance.

The directors should first of all consider the type of shares to be issued and the rights attaching to them, and for this purpose the provisions of the Articles of Association must be borne in mind. In many cases it will prove advantageous if the issue is made in redeemable preference shares. The proposals are then brought to the attention of the shareholders in the

notice calling the meeting for the purpose of passing the necessary resolutions. If the company has insufficient unissued shares to meet the proposed bonus issue, further resolutions increasing the capital must be prepared and passed in accordance with the provisions of the Articles of Association. Section 61 (a) of the Companies Act, 1948, provides that a company may increase its share capital if so authorised by its Articles. Companies' Articles usually include provisions similar to those given in Clause 44 of Table A of the Companies Act, 1948, permitting increases to capital by ordinary resolution. If there is no such provision in the company's Articles a special resolution must be passed to make the amendment. When capital is increased the appropriate return to the Registrar of Companies must be made and the stamp duty at 10s. per cent. and the small capitation fee paid thereon. On the issue of the shares a Return of Allotments is necessary, and for this purpose the issue may be returned as a subscription in cash provided the necessary note is given at the foot of the return.

**Bonus Shares and Profits Tax**  
The issue of bonus shares, not being treated

as distribution to shareholders, does not attract any liability to profits tax.

There is an important point to be borne in mind in connection with the liability to profits tax arising in liquidation: any payment made to shareholders in excess of share capital is treated as a distribution and a distribution charge is payable thereon. Had the company, prior to liquidation, converted its reserves into share capital by the issue of bonus shares, this distribution charge would be avoided on the bonus issue.

#### Effect of Issues

One wonders why the issue of bonus shares has received so much attention by the authorities over the period since 1939. It must be recognised that the only effect of issuing bonus shares is to give shareholders more "pieces of paper" called share certificates, so that, irrespective of the extent to which the capital has been "watered," the resultant proportionate share of the company's assets is identical to that owned before the operation. Accountants will have no difficulty in agreeing that the value of a shareholder's interest in a company is unaltered by the issue of bonus shares, for obviously the company's real capital is unaltered and the shareholder's interest therein cannot possibly be affected by increasing the number of shares held when all shareholders of that class have received identical treatment.

The argument that shares quoted on the Stock Exchange at lower prices, or at prices nearer their nominal value, are more readily marketed, has only a restricted application and cannot justify the suggestion made in many quarters that shareholders are receiving a valuable free gift.

The advantage to shareholders and also to the community at large is that the real interest in the capital employed is more correctly represented by the increased capital, and the rate of dividend paid thereon more correctly represents the facts than was the case prior to the bonus issue. Misunderstanding appears to exist in the minds of the public who do not, and in many cases cannot, relate the rate of dividend paid on particular shares to the shareholders' interest in the company concerned.

#### Restrictions

In the light of these points, let us consider for a moment the various restrictions which have been placed on the issue of bonus shares.

During the war period the issue of bonus shares was prohibited. It was contended that in this manner counter-attractions to the investment of surplus funds in Government Funds were removed. Whether this restriction, which prevented a greater number of companies' shares being available at lower prices, really achieved any real result is open to question, bearing in mind that many shareholders have their invest-

ments spread over a very wide field, with a comparatively small number of shares in individual companies. It is thought that no difficulty was experienced in realising these shares at the higher prices prevailing.

By the Finance Act, 1947, a penal tax of 10 per cent. on the issue of bonus shares was introduced. The financial world saw no reason why this impost should be paid for the privilege of granting shareholders two or more share certificates representing an identical proportionate value in the company's assets and for this reason few companies considered it desirable to increase the company's revenue by paying the bonus issue tax.

This tax was removed by the Finance Act, 1949, and bonus issues of under £50,000 in any one year were freely allowed, those in excess of this figure requiring the assent of the Capital Issues Committee. Now, only a few months later, the Chancellor of the Exchequer has deemed it necessary to prohibit again the issue of these shares if the amount is such that previously the sanction of the Capital Issues Committee would have been required.

#### The Trend of Taxation

FURTHER EVIDENCE OF THE INTEREST AND concern of the accountancy profession in the present high level of taxation is afforded by the paper read by Mr. S. J. Pears before the recent conference of the Institute of Chartered Accountants at Harrogate. There will be general agreement with Mr. Pears's view that it would be advantageous if the whole question could be reviewed by a Royal Commission, for there can be no doubt that there has been, over the quarter of a century since the Colwyn Commission sat, a revolutionary change both in ideas concerning the proper functions of the State and in the fiscal measures by means of which those functions can be performed. Mr. Pears would have the Commission consider: first, the fundamental principles of taxation; secondly, the quantitative relation between direct and indirect taxation; thirdly, whether indirect taxation should be more progressive; fourthly, the question of P.A.Y.E.; fifthly, whether business should be taxed as such or taxation should be solely on the individual according to capacity to pay; and, sixthly, the question of taxation in relation to nationalised industry.

Mr. Pears would seem to favour the average basis for assessment of taxation, justly pointing out that a steeply progressive tax penalises the man

whose income is a fluctuating one. Readers will remember that prior to 1926 the assessment of trading profits under Case I or Case II of Schedule D was on the average profits of the three preceding years. The arguments against the average basis are less cogent where a potential sur-tax liability has to be taken into consideration. An allied point made by Mr. Pears and widely recognised (especially on the Stock Exchange) is the adverse effect of high taxation on willingness to bear business risks—at a time, it may be added, when so much depends on initiative.

Mr. Pears urges the commonly held view that high taxation adversely affects maximum effort, the capacity of a business to build up replacement reserves and working capital, the volume of voluntary saving and hence the supply of capital for industry.

Holding to the view, which seemed at one time likely to become outmoded, that national housekeeping should be framed on the principles that must be observed in private housekeeping, Mr. Pears would have the State first consider what it can afford to raise in taxation, that is, how much of total income can be withdrawn without adversely affecting production, and secondly, on this criterion, determine the amount it can spend on defence, social and other services. In his opinion, taxation is too high and therefore it follows that public expenditure should be reduced. In fact, he holds, the procedure has been reversed: the amount of spending being first determined and then, without due regard to the effects of taxation, the amount appropriate to that amount of spending being raised.

Obviously, it is a matter of extreme theoretical and even more extreme practical difficulty to determine the best level of taxation in relation to which the existing level can be said to be too high or too low. In this matter economics and political philosophy overlap and controversy is apt to be acute. Not less clearly, Mr. Pears's general contention that high taxation should be equitable will be accepted, even though there is no scientific means of attaining a satisfactory, that is, a logically valid, definition of what constitutes equitable taxation or an equitable distribution of taxation.

## Hotel Notices

*What is the liability of an hotel if the property of a guest is stolen? What bearing on this liability has a notice exhibited in the bedrooms that the proprietors will not hold themselves responsible unless the guests act in accordance with the directions of the notice? And what is the effect of the notice exhibited in accordance with the Innkeepers Liability Act, 1863?*

[CONTRIBUTED]

THE QUESTIONS POSED ABOVE, NONE OF THEM NEW YET possessing a perennial interest, were considered by the Court of Appeal in the recent case of *Olley v. Marlborough Court, Ltd.* (1949, L.J.R. 360). The facts were that a Mrs. Violet Ellen Olley, the plaintiff, was a guest for reward at the Marlborough Court Hotel for a period of nearly two years. Some six months after her first going there, various articles, including furs and jewellery belonging to her and amounting in value to over £50, were stolen. It appears that the plaintiff, on leaving the hotel on the day on which the goods were stolen, left the key of her bedroom, the door of which she had closed, on the key-board in the reception office. This key-board was placed on the far wall of the reception office and appears to have been used by some, though not all, of the guests. At all events, the placing of a bedroom key upon the board by one of the guests was not an unauthorised act; it was, on the contrary, responding to an implied invitation so to do.

According to the evidence, on the day in question, about three o'clock in the afternoon, a young man entered the hotel, went to the reception office, appears to have used the lift, and was later seen, by the same witness, to leave the hotel carrying a small suitcase which he had not with him when he entered. It seems that a receptionist should have been on duty but was not actually in the office at the time, and though the porter was on duty he was at the time in question cleaning a bust of the Duke of Marlborough and so not attending to people entering the hotel. The plaintiff pleaded negligence and the breach of an implied term of a contract that the property of the plaintiff in her bedroom would be taken proper care of and that the bedroom key, on being placed on the key-board, would be guarded. The defendants denied negligence and any such implied term of a contract and set up the plea of contributory negligence and the statutory limitation of liability under Section 3 of the Innkeepers Liability Act, 1863.

In the Court of First Instance Mr. Justice Oliver had found that the proprietors of the hotel were negligent in allowing the bedroom keys to be within easy access of any person entering the hotel. In the Court of Appeal Lord Justice Bucknill agreed that there had been negligence but thought it consisted not in the keys being in an accessible position but in the fact that there was no person on the afternoon in question keeping watch on the open front door through which anyone might enter. It was, in fact, through their agents that the proprietors were negligent of their duty to take reasonable care of the property of their guests. Two of the three Lords Justice cited *Scarborough v.*

*Cosgrove* (1905, 2 K.B. 805) with approval. In that case Romer, L.J., had said (at p. 815):

Seeing that the landlord carries on his business of a boarding-house-keeper for reward I think he is bound to carry on that business with reasonable care having regard to the nature and normal conduct of the business as known to the guest, or as represented to the guest by him; and if by reason of a breach of that duty on his part the luggage is lost I can see no reason why he should not be held liable for that loss to the guest.

That, then, is the answer to the first of the three questions posed.

The second question presents more difficulty. It is almost invariably found not only in hotels but in any public place, such as a restaurant, that notices are exhibited in which the proprietors lay down, or endeavour to lay down, conditions under which alone they will be responsible, or even expressly state that they will accept no responsibility at all. What is the legal effect of such a notice? In this case there was a notice in the plaintiff's bedroom stating, *inter alia*, that "The proprietors will not hold themselves responsible for articles lost or stolen unless handed to the manageress for safe custody. Valuables should be deposited for safe custody in a sealed package and a receipt obtained."

Two distinct questions arise: first, does the notice have effect as a contract, and, secondly, in the event of that question being answered affirmatively, what is the protection it affords? In this aspect of the case the judgment of Denning, L.J., is particularly clear. Having observed that those who seek to exempt themselves from their common-law liability must prove the contract strictly, he pointed out three ways in which this could be done: first, by a document in writing signed by the party to be bound; secondly, by one party handing to the other before or at the time of the contract a written notice specifying the terms; and, thirdly, a prominent public notice which would be apparent to the other party when making the contract. But it would be seldom that a notice in an hotel bedroom would satisfy these conditions, for it is probable that in most cases the contract would have been concluded before the notice was seen. Denning, L.J., observed (at p. 368): "As a rule the guest does not see them [the notices] until after he has been accepted as a guest. The defendants no doubt hope that guests will be held bound by them but the hope is vain unless they clearly show that the guests agreed to be bound by them which is rarely the case."

As to the protection which such a notice gives, Denning, L.J., inclined to the view that this should depend on the terms of the contract. If the notice does not clearly

exempt from negligence, the effect would seem to be that it only protects the proprietors from any liability they may have as insurers. If the hotel is in fact a common inn, the notice will confer a genuine exemption from liability for this special responsibility as insurer rests on a common innkeeper ; while if the hotel is a private hotel and therefore apparently not an inn (see *Halsbury's Laws of England*, 2nd Ed., Vol. 18, p. 138), the notice would bring to the attention of the guest that the hotel proprietor is responsible only for negligence.

The third question is not so much difficult as one which has a double aspect. Primarily, an innkeeper has a special responsibility at Common Law, and up to the value of £30 this special responsibility is unaffected by statute. The effect of the Innkeepers Liability Act, 1863, is to limit the liability to £30 except in certain circumstances which are set out in the Act. These are :

1. Where such goods or property shall have been stolen lost or injured through the wilful act, default or neglect of such innkeeper or any servant in his employ.
2. Where such goods or property shall have been deposited expressly for safe custody with such innkeeper : provided always, that in the case of such deposit it shall be lawful for such innkeeper, if he think fit, to require as a condition of his liability that such goods or property shall be deposited in a box or other receptacle fastened and sealed by the person depositing the same.

In this particular case there was exhibited the statutory notice in the hall and the, so to say, special notice in the bedroom. Did it make any difference that there were both notices ? On this Bucknill, L.J., said (at p. 364) :

It is said that unless one reads the notice to this effect "The proprietors will not hold themselves responsible for articles lost or stolen through the neglect of the proprietors unless handed to the manageress for safe custody" the notice is otiose because it is only stating what is the common law position. The answer to that is twofold : anybody reading that notice would be entitled to couple it with the notice in the hall about the keeper of a common law inn and his liability ; and secondly if, as suggested, the words "through the neglect of the proprietors" were read in to the notice in the bedroom, it would be extremely difficult to know what was the position with reference to property handed to the manageress for safe custody. Would it mean that if the property were handed to the manageress for safe custody the proprietors would be liable only on proof by the guest of negligence on their part ? I think that the guest would be in an impossible position. How could he possibly prove what was the cause of the loss of property which he had handed to the manageress ?

He accordingly concluded that it was merely a general statement on the lines of the notice in the hall [the Innkeepers Liability notice] and had therefore no bearing on the particular case because negligence had been proved.

## The Mechanised Office

[CONTRIBUTED]

EVERY ACCOUNTANT SHOULD HAVE VISITED the Business Efficiency Exhibition, held at Olympia during November. To have done so is to have educated oneself in developments which must ultimately affect every member of the profession, whether in practice or in industry.

The exhibition, which was organised by the Office Appliances Trades Association, staged under one roof at one time the results of the application of scientific engineering and research to a wide range of the problems confronting the accountant. The appliances now available, properly installed, can save much routine and repetitive thought, thereby leaving the human mind freer to grapple with the many tasks which cannot conceivably be mechanised.

On entering Olympia, one sensed an air of quiet study indicative of the search for knowledge—this at once dispelled the idea

of entertainment so frequently associated with "shows." A glance revealed the absence of those large notices displayed in previous exhibitions boldly announcing that machines could do all your accounting, costing and taxation : these had been replaced by smaller signs briefly indicating the capabilities of each appliance. It was noticeable that labour saving had been obtained in many machines by electrification. Clearly, too, attempts to reduce noise in the highly mechanised office had been largely successful. Designs generally were improved and colour was much more evident than in earlier machines—an attempt to help in making office life more colourful and attractive, especially to women. Many of the machines have been made lighter to handle and easier to operate. Where carbons and inks are employed, the machines are generally cleaner to use. Where possible, appliances have been re-

designed so that they can be worked from a sitting instead of a standing position.

The writer made an attempt to visit each stand, even though in some cases the "visit" consisted of a quick glance to ascertain if anything new had appeared during the last two years. This idea was only partially satisfactory. It "worked" where changes were easily visible, as with the streamlining and block keys of certain *Remington Rand* machines. It did not "work" where there were important improvements which could only be appreciated after the usual courteous and patient demonstration by the representatives of the manufacturers. To do justice to all the exhibits would, therefore, entail many visits with a lengthy stay at each stand and a memory with as many registers as some of the machines themselves. In this respect *Powers-Samas* should be congratulated on producing a booklet entitled "What to see on the Powers-Samas stand," not only giving a list of their machines but specially marking all those which incorporate new features or developments. As is well known, this firm is one of the two giants of the punched card world, and the large number of starred items in their booklet indicate the advances being made in the ultimate application of punched card

technique for all office functions and book-keeping. Special attention was drawn by this firm to their Universal Printing Counting Sorter which simultaneously counts 36 separate positions of a card and automatically prints sub-totals on a change of designation and grand totals at the end of a run. It is particularly useful for census work.

The *British Tabulating Machine* company, manufacturers of Hollerith punched card equipment, displayed many of their machines and demonstrated them on request. Here again the developments in this type of equipment increase the number of uses to which the technique may be applied. The ability of Hollerith machines to sense a pencil mark on a card and operate therefrom in lieu of a punched hole is a feature which has great possibilities. New Hollerith products included a "Keystor" punch, which it is claimed, will speed up punching. There is, in fact, a distinct tendency to increase the speed of cards through this type of machine: both firms (Hollerith and Powers-Samas) now have sorters which can sort cards at the rate of 600 per minute.

Machines designed for billing, ledger posting, cheque writing, pay-roll preparation, P.A.Y.E. computations, and other similar functions were well in evidence on the stalls of the principal manufacturers of this type of appliance—*Burroughs, Remington, National, Underwood, George Anson*, and others. Each has certain advantages which repay careful study by the prospective user. Some of these machines, such as the National receipting machine, are unique to the particular manufacturer. Burroughs also showed an ingenious adding typewriter. The franking machine is adapted to a new use by *Roneo Neopost*, being applied to the printing of cancelled insurance stamps of all denominations.

Many examples of the less complicated forms of mechanisation were available for inspection, demonstration, and operation by the visitor. Included in this category were calculating and adding machines and typewriters of all shapes and sizes, both manually and electrically operated. It must be confessed that there is some fascination in watching an electric calculator automatically performing a lengthy division.

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The Office Appliances Trades Association announces that a Business Efficiency Exhibition will be held at the Northumberland Hall, Newcastle-upon-Tyne, from December 6 to 9. It will be a smaller version of the Olympia exhibition, but there will be exhibits from about forty manufacturers from all parts of the country.

Photography is gradually being recognised as a contributor to business and office efficiency, and *Kodak* were showing the various items of their Recordak apparatus which photographs documents on to quinatype photographic film from which they may be subsequently read through projectors. Full-size document-copying by photographic methods were demonstrated by the *Copycat* company. Their apparatus enabled the whole job to be done in the office in a matter of minutes. The great advantage of photographic copying is that it is always accurate and need not be "called over."

Photography can also be employed to provide the "master" for certain duplicating processes, and although the procedure may be rather technical, it fills a gap which some of the more familiar duplicating machines do not cover. The latter were well represented at the exhibition. They tended to emphasise the use of colour. Much attention was attracted by a small hand version of the well-known Banda duplicator, made by *Block & Anderson, Ltd.* It is known as the "Bandurette" and does the small area copying jobs.

Mention must be made of addressing machines (present in numerous forms), coin-counting machines, cash registers, and cheque protecting, and postal franking apparatus. Machines of all these classes can assist the accountant in appropriate circumstances.

Efficiency is not only achieved through mechanisation. Well-devised books of account have an obvious value. *Manifoldia* were among the companies showing good examples of such books. Much can be done by using an ingenious form of filing or stationery, or some other simple idea which, when once seen and understood, almost invariably produces the comment, "Why didn't someone (or even I) think of that before?" The exhibition was full of such examples of inventiveness and abounded in numerous other small gadgets which not only save time and temper but make life more comfortable for both chief and office boy.

Creature comfort was well catered for by the chair manufacturers, among whom *Tan-Sad* were conspicuous, while some of the desks shown must be great inducements to "stay and finish the job." Fire-resisting furniture was also shown, *Chubb* being among the manufacturers in this class. In these days when problems demand time and uninterrupted periods of concentration, instruments such as the *Dictaphone* and inter-departmental telephones are indeed blessings. The small gadget for locking the door electrically while still sitting at the desk is worthy of a second thought.

The accountant's tasks and responsibilities are becoming ever heavier, and this

exhibition indicated the possibilities of easing that part of the burden which is attributable to the more routine type of work. It is not known whether there was a deliberate intention to induce a mood of optimism in the visitors, or whether there was a small leakage in the public address system, but there certainly were on at least one occasion faint strains of music issuing from one of the loud-speakers.

### Standardisation in Industry

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TWO REPORTS PUBLISHED DURING NOVEMBER urge greater standardisation upon industry. One report is a White Paper (H.M. Stationery Office, 9d. net) giving the conclusions of the Committee for Standardisation of Engineering Products set up by the Ministry of Supply. The other, entitled "Simplification in Industry," is published by the Anglo-American Council on Productivity (1s. net). Both reports state that much of the work of extending specialisation and simplification of British products must be undertaken through trade associations, which are urged to put this work in hand. Individual firms, not only in manufacturing but also in consuming industries, should also take action to reduce unnecessary variety.

Aspects of the report of the Ministry of Supply Committee of particular interest to accountants concern pricing policy and taxation. It is stated that price differentials between articles produced as regular lines and those manufactured in very limited quantities are often far too small to reflect differences in the costs of production. The dislocation frequently caused by producing items in small quantities is given insufficient weight and the special and often hidden overhead costs ascribable to them are not recovered in their prices. The Committee finds that part of the difficulty in assessing the difference in costs follows from the absence of sufficiently detailed and accurate costing systems—as a result the special order which needs unusual attention bears only its part of the general overhead of the whole factory.

Re-equipment and re-tooling, necessary for more efficient production in bulk, is held up, the report states, by the problem of finance. This problem has become more serious with the rise of the cost of capital equipment to some two and a half times the pre-war level. Taxation on undistributed profits aggravates the situation. The increased allowances under the last Finance Act are helpful in providing, in effect, for an immediate tax free loan but do not appreciably ease the long-term problem. To encourage re-equipment in industry, the Committee recommends that the Government should consider amending the system of taxation.

# Increase in the Profits Tax

THE PROFITS TAX BILL GIVES EFFECT TO THE announcement of the Board of Inland Revenue reproduced in ACCOUNTANCY last month (page 304). As from October 1, 1949, the tax will be charged at thirty per cent., with twenty per cent. non-distribution relief.

Where an accounting period bridges the date in question, the period before that date and the succeeding period will be separate chargeable accounting periods.

In any case where a distribution charge arises (that is, where the gross relevant distributions exceed the profits, before abatement, including franked investment income), it will be at twenty per cent. to the extent that twenty per cent. non-distribution relief has been given for previous periods. Any further distribution charge will be at fifteen per cent.

Where the net relevant distributions are reduced by reference to a loan repaid, the reduction will in future be by reference to tax at twenty per cent. (unless there is or but for the repayment of the loan would have been a distribution charge for the period at fifteen per cent., when the reduction will be by reference to tax at fifteen per cent. up to the amount charged at that rate).

The same principles apply when considering the position under Section 36 (4), Finance Act, 1947, relating to schemes of amalgamation or reconstruction, and Section 38 (2), *ibid.*, relating to groups of companies.

In the case of any accounting period beginning before October 1, 1949, the total of the dividends declared after September 26, 1949, in respect of that period will be regarded as gross relevant distributions only so far as it does not exceed the total dividends assignable to the immediately preceding accounting period. Any excess will be a distribution of the period in which it is paid. If the amount of the class of paid-up share capital has increased, the permissible amount of dividend is regarded as rateably increased in arriving at the amounts in question, i.e., the rate per annum must not have altered; if it has, the excess (if any) will be a distribution of the succeeding period. An increase in capital as a result of a bonus issue is to be disregarded here, so that any dividend on the bonus issue will be a distribution of the period in which it is paid, if the total dividend is increased as a result of the bonus. If, however, the rate of dividend is

reduced, it may be that there is no increase in the total paid.

*Illustrations:* (1) Accounting period the year to December 31, 1949. Capital increased by 25 per cent. in March, 1949, Dividend for 1948, £14,000; 1949, £20,000.

|  | Total                  | C.A.P. 9 months<br>to Sept. 30, 1949 | C.A.P. 3 months<br>to Dec. 31, 1949 |
|--|------------------------|--------------------------------------|-------------------------------------|
| Total agreed profits ..  | 1949 £50,000           | £37,500                              | £12,500                             |
| Less franked investment income                                       | 10,000                 | 7,500                                | 2,500                               |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
|  | £40,000                | £30,000                              | £10,000                             |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| " Governing total "  |                        |                                      |                                     |
| Dividend for preceding accounting period ..                          | .. .. ..               | .. .. ..                             | £14,000                             |
| Add increased capital 25 per cent. ..                                | .. .. ..               | .. .. ..                             | 3,500                               |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| Dividend for 1949 .. .. ..   | .. .. ..               | .. .. ..                             | £17,500                             |
|  | <hr/>                  | <hr/>                                | 20,000                              |
| Excess .. .. ..  | .. .. ..               | .. .. ..                             | £2,500                              |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| Gross distributions  |                        |                                      |                                     |
| Chargeable accounting period 9 months to<br>30/9/49 .. .. ..         | .. .. ..               | .. .. ..                             | £13,125                             |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| Chargeable accounting period 3 months to<br>31/12/49 .. .. ..        | .. .. ..               | .. .. ..                             | 4,375                               |
| and excess as above .. .. ..   | .. .. ..               | .. .. ..                             | 2,500                               |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
|  |                        |                                      | £6,875                              |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| First chargeable accounting period £30,000 at 25 per cent. = £7,500  |                        |                                      |                                     |
| Net relevant distribution  |                        |                                      |                                     |
| 30,000   |                        |                                      |                                     |
| — × £13,125  | 10,500                 |                                      |                                     |
| 37,500   |                        |                                      |                                     |
| Non-distribution relief .. ..  | 19,500 at 15 per cent. | 2,925                                | 4,575                               |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| Second chargeable accounting period £10,000 at 30 per cent. = £3,000 |                        |                                      |                                     |
| Net relevant distribution  |                        |                                      |                                     |
| 10,000   |                        |                                      |                                     |
| — × £6,875   | 5,500                  |                                      |                                     |
| 12,500   |                        |                                      |                                     |
| Non-distribution relief .. ..  | 4,500 at 20 per cent.  | 900                                  | 2,100                               |
|  | <hr/>                  | <hr/>                                | <hr/>                               |
| Profits Tax Payable .. ..  | .. ..                  | £6,675                               |                                     |
|  | <hr/>                  | <hr/>                                | <hr/>                               |

(2) If in the year 1950 the dividend is £21,000 and the profits tax computation is as follows :

|  |          |                        |        |
|--|----------|------------------------|--------|
| Profits .. .. ..                       | .. .. .. | £16,000                |        |
| Franked investment income .. ..        | .. ..    | 10,000                 |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
|  |          | £6,000 at 30 per cent. | £1,800 |
|  | <hr/>    | <hr/>                  | <hr/>  |
| Gross Relevant Distribution            |          |                        |        |
| Dividend £21,000                       |          |                        |        |
| Deduct Profits 16,000                  |          |                        |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
|  |          | £5,000                 |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
| Then the distribution charge will be : |          |                        |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
| £4,500 at 20 per cent.                 | 900      |                        |        |
| 500 at 15 per cent.                    | 75       |                        |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
| £5,000                                 |          |                        |        |
|  | <hr/>    | <hr/>                  | <hr/>  |
| Profits Tax Payable .. ..              | .. ..    | £2,775                 |        |
|  | <hr/>    | <hr/>                  | <hr/>  |

# Fiscal Progress

## A Conversation with the Shade of Adam Smith

By R. A. FRICKER, A.S.A.A.

### A Modern Chancellor :

Welcome, Mr. Smith. It is indeed a pleasure to meet such a celebrated pioneer of economics as yourself.

### Shade of Adam Smith :

*Sir, you honour me. I am very interested to learn of the progress made in our country's fiscal affairs in which there was certainly great room for improvement in my day. I have heard of various innovations since my demise in 1790, but perhaps you will tell me what you consider to be the outstanding features at the present time.*

Well, probably the most important development is the income tax together with its offspring sur-tax and profits tax, and excess profits tax now expiring.

*I have heard that the excess profits tax is likely to take an unconscionable time over its decease. But what is this income tax, apart from being, I gather, a somewhat prolific parent?*

It is a tax on incomes tempered to fall lightly on small incomes and drastically on the higher incomes.

*I suppose the greatest care was taken in formulating the definition of income on which the tax is charged?*

It may surprise you to know that in all the numerous Acts of Parliament relating to the income tax there is nowhere any general definition of "income." A large body of case law has, however, developed and provides certain guidance.

*No doubt this case law has now covered all the points of contention so that the tax, if not clearly expressed, can at last be regarded as clearly understandable?*

By no means. Volumes of these cases continue to be issued periodically and, even were there likely to be a pause, frequent new legislation provides the necessity for further cases, and not infrequently the results of certain cases give rise to still more legislation.

*Do you mean that after a law suit has been judicially decided in favour of a taxpayer the law is amended to his future disadvantage?*

Yes, sometimes. And occasionally when amendments are made they are given retrospective effect.

*It seems to me that that might well result in tax being charged upon income after the income has been spent. But do you do anything to assist the taxpayers to find their way through the mazes of the Acts and the case law?*

The Acts, the volumes of the law reports

and the statutory regulations can all be purchased by the public. In addition we circulate a page or two of instructions with return forms and notices of assessment, and occasionally we publish pamphlets on special matters. I should mention, though, that as official circulars do not carry the force of law, more than one taxpayer has been upset to find that reliance placed upon them has been in vain.

*If that is in pursuance of the principle that a subject can be taxed only if the letter of the law applies to him I can follow it. But is it correct that nowadays options are frequently offered to taxpayers in the Statutes themselves?*

Yes, we not infrequently give taxpayers an option. But why do you ask? Surely if a taxpayer elects for a given option it is to be assumed that he finds it advantageous to himself?

*I understand that to determine the merits of some options would need the services of a soothsayer and the wisdom of the prophets. However, as election under these options is so often akin to a lottery I leave you to the mercy of the opponents of State lotteries!*

I must have notice of that, but to revert to the question of assistance given to taxpayers, the Inspectors of Taxes are supplied with voluminous instructions and we do, of course, make concessions from time to time.

*I suppose those instructions and concessions are also available to the public?*

Oh, no! They are regarded as highly confidential.

*I cannot see, then, how an ordinary business man, for example, can ever ascertain the tax. Moreover, both the income and the tax can surely only be guessed without an inquisition into personal affairs more intolerable than any tax?*

Please, not "guessed." Say rather "estimated." If I may so amend your question there is, I think, a twofold answer. I do not think you appreciate, firstly, the severity of the tax, which ranges from 9s. in £, or less on smaller incomes, to 19s. 6d. in £ on the highest part of the highest incomes and, secondly, the docility of modern taxpayers, who are now quite enured to rendering annual returns of their income.

*I once recorded that in parts of Europe the citizens assessed themselves with great fidelity. The change from that method to the present annual, detailed and burdensome inquisition*

*hardly seems to me to represent progress. Could you not adopt the self-assessment basis?*

You overlook that, as you yourself said just now, no ordinary person can hope to understand the complexity of the statutory provisions, regulations, case law, concessions and administrative practice. These are fortified by an elaborate system of penalties, tempered, however, with power of remission. Administration is in the hands of a great body of civil servants and a large number of persons act professionally as advisers to the taxpayers. In this way, although there remains a certain amount of deplorable evasion, the general accuracy of returns is assured.

*May I take it that the professional advisers receive the instructions and particulars of concessions available to the Inspectors of Taxes?*

Certainly not. The instructions are confidential to the inspectorate and the concessions are not published because, of course, it is difficult to be certain what cases are suitable for concessional treatment.

*I once maintained, and I still maintain, that taxes ought to be clear and plain to the contributor and to every other person. But it seems that they cannot be clear and plain even to the body of professional advisers. And is not the evasion of taxes which you deplore and apparently counter by streams of complex statutes, regulations and penalties attributable to the enormous height and burden of the taxes which provide the temptation?*

Remember that the high level of taxation is for the taxpayers' own ultimate good.

*I should have thought that the taxpayers would prefer to judge for themselves how their income should be spent. But what do you do when taxes conflict? For instance, I have heard that in the case of certain companies which do not make adequate distributions of their profits, liability to sur-tax arises. But if they make distributions which are adequate from the sur-tax point of view they may not only offend your requirement regarding the limitation of dividends but may also render themselves liable to additional profits tax.*

We have been obliged to do something in these cases—partly by law and partly administratively.

*Why partly administratively? Why not by revision of the law?*

As dividend limitation is not statutory the treatment could not be statutory but the profits tax and sur-tax problem was dealt with by Statute.

*If you cannot completely deal with the difficulty by Statute, how was the administrative action publicised?*

It was announced in Parliament, the record of which is publicly available in copies of *Hansard*.

*It seems to me hard to expect ordinary citizens diligently to peruse *Hansard* on the chance of occasionally learning of matters material to them. Are the taxes you have mentioned all those imposed nowadays?*

No, our very latest development, you will be interested to learn, is the Special Contribution.

*That must be the tax which, I am told, certain civil servants, with what seems to me appalling levity and lack of feeling, refer to as "The Con."* Even without the abbreviation the appellation is extraordinary. Are not all taxes contributions and why is this particular one termed special?

What's in a name? We could not call this a capital levy although the burden imposed is such that in many cases it can be met only by the realisation of capital. It is, however, to be imposed but once for all.

Oh, a capital levy and one that is leviable but once only. I expected you to dazzle me with a record of progress but here you are harking backwards. Even before the days when I was writing, towards the end of the eighteenth century, there was just such a tax in Holland. There, too, the tax was to be paid but once to relieve the State in a particular emergency and was likewise one which very few people could pay without encroaching upon capital. Must not this Special Contribution also be fearfully difficult, complex and even anomalous to administer?

It is based upon income and limited to persons with an annual income over £2,000 and you remember that we have an army of officials to ascertain income.

In that case I assume that "income," whatever it might be, is at any rate the same for this tax as for the income tax?

Not at all. It was necessary to introduce various modifications.

With the result, no doubt, of even more complexity, not to mention perplexity. But if you desire to adopt old-time taxes would it not have been simpler to revert to the very old poll taxes at one time operative here as well as in other countries? They were graded, I believe, according to rank: for example, dukes, marquesses, earls, viscounts, barons, esquires, gentlemen, shopkeepers and tradesmen. The tax was not very heavy and a considerable degree of inequality was found to be less insupportable than any degree of uncertainty.

Nowadays fortune does not depend upon rank, nor rank upon birth. Rank, in fact, now tends to be determined more by occupation. Do you know you have provided me with an intriguing thought? I wonder what our present-day politicians, officials, directors, trade union leaders and others would say if they were taxed according to their own estimate of the importance of their rank! I must see that this receives consideration prior to the next Budget. Do not think, however, that these are all our taxes. We have now a purchase tax on a wide variety of goods.

May I take it that this is imposed only upon luxuries?

No. Very many common necessities are taxed.

*Surely to tax the necessities of life must involve increased wages which in turn increase manufacturing costs and so tend to increase the prices of all manufactures and consequently to diminish their sale and consumption?*

At home such a diminution is not unwelcome in the circumstances in which we find ourselves to-day but we have, in fact, decreed a policy of wage freezing and dividend limitation.

*So you have artificially stabilised wages, and wage increases are now a thing of the past?*

By no means, for since the policy was formulated some millions of workers have received increases amounting to a very considerable weekly sum.

*Despite continuation of dividend limitation?*

Yes.

*A policy of wage stabilisation accompanied by taxation of necessities must tend to depress the standard of living. But you do not, I think, claim this to be the object of your policy nor, it seems, do you put the policy into effect! It is all very difficult for me to follow.*

The real answer lies in greater productivity.

*But yet you tax the goods produced, both luxuries and necessities!*

We have at any rate not returned to the bad old hearth money tax and the window tax has been abolished.

*Yes, those were very unequal taxes, as I said in 1776.*

You must admit that this at least is a certain measure of progress.

*Yes, but it does seem to me that this molehill is quite overshadowed by the mountain of the creation and maintenance of a gigantic administrative machine very successful in extracting from the people both income and capital. Moreover, this has apparently been achieved not merely without any clarification of the laws or simplification of regulations but even despite very considerable additional complexities. Do you not agree that besides the time of payment and the manner of payment, the amount of tax ought to be clear and plain, both to the taxpayer and to every other person?*

You do not mean, do you, that each man should know the amount of every other man's tax?

*No, but all persons should readily be able to ascertain the tax applicable to circumstances in which they are or might find themselves. Further, it is not in doubt that uncertainty in taxation is an evil and that this evil may arise, apart from any question of the nature of the duties, from the inaccurate, unskillful or overcomplex manner in which the law that imposes it is expressed. Can you not, therefore, do something to simplify the law with all its attendant regulations, cases, concessions and the like, at any rate in so far as taxes on income are concerned?*

I fear that is rather difficult because at present experts cannot fully comprehend all the matter and even the Judges who have to interpret the law often find them-

selves of differing opinions. I can, for instance, recall at least two cases both of which went to the House of Lords and in which, taking all the judgments delivered from the Court of first instance onwards, the Judges were eventually found to be equally divided in their opinions.

*That is very surprising.*

It is not so surprising when one recalls that not infrequently the Judges criticise the form and language of the Statutes. In fact, some 27 years ago a Judge remarked that the law of income tax ought as speedily as possible to be expressed in a new Statute which should bear and express an intelligible meaning.

*That must have been soon after the consolidating Act of 1918 of which I have been told. And was nothing done?*

Well, in 1927 the then Chancellor appointed a distinguished Committee which eventually reported in 1936.

*Yes, I have heard about the report of that Committee. It regarded the condition of the legislation as chaotic and pointed out that the language in which many of the statutory provisions are framed is so intricate and obscure as to be unintelligible. I have been told that as a minor instance the report mentioned that the word "assessment" is used in no less than eight different senses.*

*If simplification is impossible, the success that has been achieved in the administration and collection of taxes is the more remarkable. But before I depart, may I suggest as the soundest basis of fiscal progress the four principles of taxation which I expounded over 170 years ago? Put simply, they are:*

*Equality of Sacrifice*

*(not to be confused with Equality of Misery).*

*Certainty of Assessment*

*(not to be taken for inevitability which you have already achieved).*

*Convenience of Collection*

*(why do you have to issue tax demands at Christmas?)*

*and Economy in Administration*

*(if this is understood to-day).*

*I hope these do not seem too advanced or unorthodox for you?*

No. They seem to comprise so excellent a creed as to be indeed worthy of an honoured pigeon hole.

#### Transfers of Legacies Abroad

The Chancellor of the Exchequer stated in the House of Commons on November 4 that in order to reduce exports of gold and dollars the transfer of legacies to residents in hard-currency countries would be restricted to the first £500 of each bequest. The remainder would be paid into blocked accounts. The restriction would apply to transfers to Canada, the U.S.A., "American account countries," Belgium and Switzerland, but applications lodged with banks in the United Kingdom on or before November 3, 1949, would be exempt from the new restriction. All other transfers are unrestricted.

# Taxation Notes

## Capital Allowances

THE CHANGES THAT HAVE TAKEN PLACE IN 1946 and 1949 make it opportune to restate a few important principles in connection with what are now called "capital allowances."

The first point needing emphasis is that no allowances can be given under the Income Tax Act, 1945, unless they are claimed. The claim is to be made, in the case of any allowances deductible in a Schedule D, Cases I and II, or a Schedule E assessment, in the annual return (Section 55). In other cases, for example a claim by a landlord for the allowances for an industrial building, the claim will likewise be made in the annual return of income in normal circumstances, though in the first year it may be the subject of a repayment claim after the end of the year of assessment. In any event, it appears that an "error or mistake" claim could be made to remedy the omission in an annual return.

Where, however, the allowance is available primarily against income of a specified class, and exceeds such income, a claim for the excess to be set against other income must be made within one year after the end of the year of assessment (Section 56).

The fact that, to obtain an allowance, a claim must be made is important in that it makes it possible for a taxpayer to claim annual allowances without claiming initial allowances, which may be desirable where personal and other allowances would be lost in the year for which the initial allowance was claimed.

In the case of allowances for capital expenditure on agricultural buildings, etc., there are no complications such as special rules for basis periods where the source is new; the first allowance is to be given in all instances in the year of assessment following the year in which the expenditure is incurred. For this purpose, the year to March 31 is the period to be taken unless some other date is agreed, as will usually be so where accounts are involved.

As regards machinery and plant, the "straight line" method of calculating annual allowances for wear and tear is at present rare except in the case of ships. Where it is adopted, adequate plant registers must be kept.

The obsolescence allowance can still be claimed for machinery and plant provided before April 6, 1946, and replaced thereafter, if the taxpayer elects to have that allowance in preference to a balancing allowance (Section 18). In ordinary cir-

cumstances the result will be the same, as an obsolescence allowance reduces the profits of the basis year, whereas the balancing allowance is deducted from the profits in the year of assessment relevant to that basis period. It is only where (1) a subsidy has been had when the plant was acquired, or (2) a loss has been made and a claim is to be made under Section 34, Income Tax Act, 1918, that the result will differ. In (1) an obsolescence claim will ignore the subsidy, whereas a balancing allowance would take it into account (although a balancing charge would not—Section 66, I.T.A., 1945). In (2) the relief is a year earlier.

Where machinery is replaced and a balancing charge arises, it is permissible for the balancing charge to be deducted from the cost of the replacement instead of being assessed. Where this option is taken, the balancing charge must be regarded as an additional initial allowance on the new machinery.

### Illustration :

|  |          |
|--|----------|
| Old machine cost ..                        | £8,000   |
| Allowances granted over its lifetime .. .. | 4,500    |
| Proceeds .. ..                             | 3,500    |
| Balancing charge ..                        | 6,000    |
| New machine cost ..                        | £2,500   |
| Initial allowance ..                       | £9,000   |
| Annual allowance, say 10% ..               | £3,600   |
| + $\frac{1}{4}$ 900                        | 225      |
|  | 4,725    |
| Written-down value                         | £4,275   |
| Net allowance £4,725 - £2,500              | = £2,225 |

### Alternative treatment.

|  |        |
|--|--------|
| No charge made <i>re</i> balancing charge. |        |
| New machine .. ..                          | £9,000 |
| Less balancing charge ..                   | 2,500  |
|  | 6,500  |
| Initial allowance                          |        |
| 40% of £6,500 =                            | £2,600 |
| Annual allowance ..                        | 650    |
| + 163                                      | 3,413  |
| Written-down value                         | £3,087 |

The immediate advantage is the difference between £3,413 and £2,225, or £1,188. In the alternative treatment the initial allowance is regarded as £2,500 + £2,600 = £5,100 for the purposes of arriving at any balancing allowance or charge on the new machine when it is discarded.

If machinery is used partly for another purpose, the allowances are restricted *pro tanto*. The most common example is probably the private use of a motor car.

If 10 per cent. is agreed as private use, then 10 per cent. of the allowances as calculated will not be deductible from income, though the full amount must be deducted in arriving at the written-down value. Where a balancing charge arises in such a case, care must be taken to see that it does not exceed the allowances actually made. The allowances and balancing charge must be such as the circumstances make just and reasonable. In cases where mileage is known, the mileage will form the basis of apportionment between business and private use. If a mileage allowance is received from the employer towards depreciation, it must be deducted from the allowance for wear and tear.

It may be that machinery has been used by the owner before using it for business purposes, for example, where a private car is turned over to the business. In that event, the full annual allowances (but not the initial allowance) will be written off from the date of purchase as if they had in fact been given, in order to arrive at the written-down value for current and future allowances.

## Valuation of Farming Stock

A point that has arisen frequently in the last year or two is the question of the valuation of pedigree animals when brought on to a farm which has no reputation as one on which pedigree animals are bred.

Valuers commonly adopt what they call the "commercial basis" of valuation for such animals—what the animals would be expected to fetch if sold out of the farm, knowing their pedigree.

The argument used by the valuers, which is undoubtedly sound, is that animals bought from a well-known and reputable pedigree herd have their value discounted immediately they come into an ordinary herd on a farm which is not known in circles where cattle of that class are realising high prices. As one valuer wrote :

The effect of taking animals . . . from well-known herds and collecting them together on a farm which has no herd reputation is to cause a very rapid deterioration in their capital value.

Particularly is this so where the farmer in question has comparatively little experience of pedigree herds. The building up of a herd reputation is a matter of many years' hard work. In the meantime, animals bought are regarded as having lost the identity under which they were purchased, and retained only the value as in the ordinary herd into which they are brought.

A further point that is not uncommon in such cases is that through inexperience of the farmer the original purchases are not as wise as they might be, so that the fall in value is so much greater.

Quoting again from the same valuers :

In our . . . valuation, we have had to bring these animals in at the price they would have realised under the existing circumstances, and they can now only be regarded as a normal commercial herd, quite well managed, and likely to realise prices similar to those at which we should put any other herd of a similar type in the neighbourhood. The fact that many of these animals had been purchased at very much higher prices would not influence the public in their selection and pricings of animals for sale from such a farm.

The above remarks emphasise the necessity of expert knowledge in assessing valuations. Inspectors of Taxes not unnaturally query the large falls in value in such cases, and it is often better in the client's interests to put the Inspector directly in touch with the valuers ; it is a delicate matter for an accountant to query a valuer's assessment of value !

#### Limitation of Liability for Estate Duty

While it is the general rule that the Statutes of Limitation do not affect the Crown (Section 30, Limitation Act, 1939), there are express limitations in certain instances.

No person is liable for estate duty under a will or letters of administration or confirmation (Scottish form of appointment of executor) after six years from the date of the settlement of the account in respect of which the duty is payable, where such account was in all respects a full and true account and contained all material information (Section 8 (2), Finance Act, 1894).

No trustee, executor or administrator is, after the expiration of the six years, to be liable for duty if the Commissioners are satisfied that the account was correct to the best of his knowledge, information and belief.

Such an account is not "settled" until the time for the payment of the duty on it has arrived. If the duty is being paid by instalments, the six years run from the due date of the last instalment, but it appears that there is also a separate period of limitation for each instalment.

While the Inland Revenue affidavit (Estate Duty Account) is an account for this purpose, it is so only in respect of the property comprised in it, but not in respect of estate duty on property which the executor specifies but does not purport to account for.

If estate duty arises under some other document (for example, a settlement) an attested copy can be deposited with the Estate Duty Office, and give notice of the fact which gives rise to the immediate claim for duty. The six years will run from the date of the notice.

Finally, the Commissioners are empowered to remit any estate duty and interest thereon which remains unpaid at the expiration of twenty years from the date of the death on which it became payable. Application is to be made by the accountable parties, and the power of remission applies whether or not an account has been rendered. The Commissioners have an option which they may exercise or not at their discretion (Section 8 (11), Finance Act, 1894, and Section 13, Finance Act, 1907).

#### Estate Duty and Small Estates

In the case of persons dying after April 9, 1946, no estate duty is payable if the principal value of the estate does not exceed £2,000. Moreover, in the case of persons dying after April 15, 1947, where the net value of the property, real and personal, in respect of which estate duty would, if it were payable in respect of estates however small, be payable on the death (exclusive of property settled otherwise than by the will of the deceased) does not exceed £2,000, such property is not aggregable and therefore escapes estate duty.

In the case of deaths prior to April 16, 1947, the limit was £1,000. There is no marginal relief: if the non-settled property is £2,001, it must be aggregated.

The property in question comprises :

- (a) The free estate of the deceased ;
- (b) Property over which he had and exercised a general power of appointment by his will ;
- (c) *Donationes mortis causa* ;
- (d) Gifts *inter vivos* which are within the five-year limit (one year in the case of public or charitable gifts) or otherwise are not effective for estate duty purposes ;
- (e) Assurance policies on the deceased's life kept up by him for the benefit of a donee.
- (f) Nomination policies and insurances in provident funds in which the deceased never had an interest ;
- (g) Annuities, etc., provided by the deceased and arising on his death.

In addition, the following may be regarded as settled or non-settled, at the option of the accountable parties :

- (h) Joint property passing by survivorship. (If, however, there is an agreement that the survivor shall take the whole property precluding any right of severance, the property is settled) ;
- (i) Entailed property (not disposed of by will) ;
- (j) Policy money payable on the deceased's death under a policy comprised in the deceased's marriage settlement, where, owing to the other spouse having pre-deceased the deceased, the issue of the marriage take absolutely ;
- (k) Interests in expectancy ;
- (l) Property passing on the death of a life tenant, even if the settlement thereby comes to an end.

All the property under any one of the heads (h)-(l) must be treated alike; it is not allowable to treat one reversionary interest as settled and one as not; but it is not necessary to treat all the heads alike, e.g., (h) can be aggregated without any of the others.

The fact that certain property (for instance (f) and (g) above) would form an estate by itself is irrelevant for the above purpose only.

Example :

|   |         |
|---|---------|
| (1) Free estate . . . . .   | £100    |
| (2) Gift within five years . . . . .                              | 600     |
| (3) Nomination policy for wife . . . . .                          | 500     |
| (4) Annuity purchased for wife to commence on his death . . . . . | 300     |
| (5) Reversionary interest . . . . .                               | 400     |
|   | £1,900  |
| (6) Settled Property . . . . .                                    | £21,000 |

The items (1)-(5) are exempted from duty ; (6) attracts duty at 15 per cent. Had they totalled £2,001 or more then items (1) (2) and (5) would have to be aggregated with (6) and attract 15 per cent. also. Heads (3) and (4) are each an estate by itself, and being under £2,000 escape duty.

One further point should be noted in connection with reversionary interests, namely, that if the reversion is treated as not settled for the above purpose, the option to pay duty at once or defer it will be automatically decided, as there will be no duty payable on present value.

#### Changes from "Renewals" to a "Wear and Tear" Basis

The following statement has been issued by the Board of Inland Revenue :

When the "renewals" basis is in operation for machinery or plant, the normal system of initial, annual and balancing allowances does not apply, but when a piece of machinery or plant is replaced, the net cost of replacement (i.e., the cost of the new machine less anything received for the old one), excluding any amount representing additions or improvements, is allowed as a deduction in computing profits. An initial allowance may be claimed in respect of any amount representing additions or improvements (including capital expenditure on additional plant), but any "renewals" deduction on a subsequent replacement of the plant in question would then be restricted by the amount of the initial allowance so given.

A change from the "renewals" basis to the "wear and tear" basis may be made at any time provided that allowances are not given on both bases for the same year of assessment. Where plant was acquired

before the basis period for the year of change, the starting value for wear and tear allowances on the reducing balance method is computed by writing-down the original capital expenditure on the plant by any initial allowance actually given, and by notional annual allowances at the appropriate rate from the date of acquisition. Any subsequent balancing allowance or balancing charge (or obsolescence deduction in the case of plant provided before April 6, 1946) would be based on a comparison of the original capital outlay less any allowances actually made, with any proceeds of sale, insurance or salvage moneys, or compensation received.

Where plant was replaced in the basis period for the year of change no renewals allowance would be made, but an initial allowance, and the appropriate annual allowances, would be given by reference to the capital expenditure on the provision of the new plant. Further, no objection would be raised to a balancing allowance (or obsolescence deduction for plant provided before April 6, 1946) being given in respect of the excess of the capital outlay on the replaced plant (less any initial allowance actually given) over any proceeds of sale, insurance or salvage moneys, or compensation received.

The following simplified example illus-

trates the practice :

A trader who makes up accounts annually to December 31 has three machines, A, B and C, of a class that has been dealt with on the " renewals " basis, which were acquired in 1930, 1939 and 1948 for £100, £120 and £180 respectively. The machine acquired in 1948 did not include any element of improvement. In December, 1949, he sells machine A, which cost £100, for £20 and replaces it by a new machine D (with no element of improvement) costing £200. He elects to change over to the ordinary " wear and tear " basis with effect from the year of assessment 1950-51. Assuming that the appropriate basic percentage rate for the machines in question had been 10 per cent. throughout, the notional written-down values of machines B and C as at April 5, 1950, would be £36 and £157 respectively, and annual allowances would be given on these figures for 1950-51 as follows :

Machine B  $\frac{1}{2} \times 10\% \times £36 =$  (say) £5  
Machine C  $\frac{1}{2} \times 10\% \times £157 =$  (say) £20

If in June, 1950, machine B, having qualified for one annual allowance of £5, were sold for £30, a balancing allowance would be made in 1951-52 equal to the cost (£120) less the annual allowance given for 1950-51 (£5) and less also the proceeds of sale (£30), i.e., a balancing allowance would be made of £85.

As regards machine A, no renewals allowance would be made in computing the profits of the year 1950-51 but an obsolescence allowance of £100 - £20 = £80 would be

given. An initial allowance (40 per cent. of £200 = £80) and an annual allowance (five-fourths of 10 per cent. of £200 = £25) would be given in respect of machine D by deduction from the 1950-51 assessment.

#### E.P.T.—Claims for Terminal Expenses

The Board of Inland Revenue has informed the Society of Incorporated Accountants that certificates on the following lines given by members of the Society will generally be acceptable in connection with claims for relief in respect of terminal expenses for E.P.T. purposes :

We have examined the figures comprised in the above claim. We have conferred with the persons concerned in its compilation and have received all the information and explanations we have required. We have also made such tests of the figures as we have considered necessary. We are of opinion, according to the best of our information and the explanations given to us, that the claim has been properly compiled.

The Board of Inland Revenue reserve the right to require a more detailed certificate if this is considered desirable in any particular case and generally to require returns under Rule 2 of the Ninth Schedule, Finance Act, 1946, to be verified by such evidence and in such manner as may be considered necessary.

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

*Indian income tax—Trade—Manufacture of Indian bidis, native cigarettes with tobacco wrapped in tendu leaves instead of paper—Payments by instalments to owners of forests for collecting, and removing leaves from trees—Contracts for periods not exceeding three years—Whether sums so paid capital or revenue expenditure—Indian Income Tax (Amendment) Act, 1939, Section 11.*

*Mohanlal Hargovind of Jubbulpore v Central Provinces and Berar Commissioner of Income Tax* (Privy Council, July 28, 1949, T.R. 289) was a case where the Privy Council had to consider whether certain expenditure admittedly incurred wholly and exclusively for the purpose of the business of the appellants was nevertheless prohibited as a deduction in computing their profits as being " in the nature of capital expenditure." Appellants manufactured cigarettes known as *bidis*, in which, instead of in paper, the tobacco is wrapped in *tendu*

leaves. In order to obtain these leaves appellants entered into contracts with the Government and other owners of forests. These contracts were for short periods not exceeding three years, the consideration being payable by instalments. The grant under the contracts was of the right to collect and remove the leaves from the trees and plants, although in one of the two contracts considered as typical the appellants were allowed for a few months prior to the contract period to submit the plants or trees to certain cultural treatment with a view to getting better leaves. The contracts gave the appellants neither any interest in land nor any in the trees or plants themselves—only the right to pick and carry away leaves, which then became appellants' own property. The Indian appellate authority and High Court were agreed that the expenditure incurred on these contracts was inadmissible as being

capital expenditure; but their Lordships reversed their decision.

Giving the judgment of the Council, Lord Greene, examining the conditions of the contracts, dismissed the small rights of cultivation given to the appellants as being of no more importance than the right to spray an apple tree given to the buyer of the crop; the contracts were short-term ones under which the picking of the leaves had to start almost at once and to proceed continuously, and the fact that the rights were exclusive was dismissed as of no significance in such a case. He said that the short question, therefore, was whether expenditure of the character in question, made in acquiring raw materials for manufacture, was " capital expenditure " within the meaning of the Act; and he said that, there being no statutory definition, their Lordships had to construe the contract in a business sense, subject to any rules of construction applicable, and that they felt no doubt but that in a business sense this was revenue and not capital expenditure, just as much as if the leaves had been bought in a shop. Under the contracts only the leaves had been acquired; and the rights to enter and pick, but for expression,

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would have been implied by law in the case of a growing crop. He said that in their Lordships' opinion the Indian High Court had adopted an approach to the question which had diverted its view from the real point, and had attached too much importance to cases decided upon quite different facts. Dismissing comparisons made by that Court and relied on before their Lordships, with the "purchase or leasing of mines, quarries, deposits of brick earth, land with standing timber, etc., as of no assistance, and also rejecting as un-

reliable the Indian Court's elaborate "distinctions between movable and immovable property," the judgment proceeded to differentiate between the facts of the case and those of *Alianza Company v. Bell* ((1906) A.C. 18, 5 T.C. 172) and *Kauri Timber Co., Ltd., v. New Zealand Commissioner of Taxes* ((1913) A.C. 771).

The case would seem to be of legal interest as illustrating two contrasted judicial attitudes. That the cost of the leaves used for wrapping should not be regarded as part of the total cost of the

cigarettes equally with that of the tobacco would be manifestly unjust; but certain judicial decisions, if applicable in principle, would bring about this result. The Indian Court and appellate authority apparently sought to establish similarity, whereas the attitude of the Privy Council seems to have been the opposite, consisting of a refusal to follow cases bringing about an inappropriate and undesirable result if, on a careful examination of the facts, those cases were distinguishable and could be disregarded.

## FINANCE

# The Month in the City

### The Treasury Takes a Hand

Until about midday on Thursday, November 10, the fall in the Funds which has been a matter of comment for months past continued with scarcely a halt. On that afternoon there was some sign of a modest and selective rally. Everybody had been saying that the pace was too hot to last. Yet there was a possibility that declining prices would become really cumulative and that something like a mild panic might develop. It was at this stage that the Treasury decided that it could intervene both with success and at a very moderate cost. The timing was excellent. There had been considerable bear speculation, while most of the jobbers were short of stock rather than long. The mere announcement that there would be official support sufficed to reverse the trend and the advent of a marked recovery brought in some genuine buying. Four days after the first sign of resistance, Old Consols had risen four points to their level of three weeks before and other securities had similarly improved. Further, there was a little more business and the general tone of the market seemed healthier.

All this had been accomplished at a negligible cost to the Treasury, but inevitably the question then began to be asked: What would it cost to maintain the new level? For the time being all looked well, but it was a matter of known fact that some institutional buyers had taken stock very near the bottom; it was reasonable to assume that they would think a profit of per cent. or more very attractive. The attraction would be even greater to a tax payer in the same position. If these and other holders decided to sell, would the Government be prepared to inflate to a modest extent in order to take up the stock,

and if they did would this not itself encourage selling? Plainly, nothing in the underlying situation was changed—with the possible exception that the date of the election might be earlier than was previously expected, a point which in the short run at least was of doubtful advantage to the bull of Government securities.

At the time of writing gilt-edged are again a spectacular feature, having gained two points or more in two days chiefly due to institutional operations which are normal at this time of the year for purposes of preparing balance sheets and some further remarks by the Chancellor on intervention. Most sections of the market are now either around or above their level in the second half of October, though fixed interest securities and gold mines are a little lower. The following indices of the *Financial Times* summarise the position, the figures in each case comparing October 18 with November 28: fixed interest, 121.9, 120.94; government securities, 105.54, 105.80; Ordinary shares, 102.8, 102.6; gold mines, 132.99, 132.08.

### A New Preference Issue

It is scarcely necessary to say that during the period of falling prices offers of stock and shares to the public have been suspended. But for this the fall in prices would have been even sharper. By the same token, if the rally lasts long enough for some of the more important borrowers to come forward, that will tend to depress prices once more. However, so far the only really interesting news in this market concerns the placing of a first block of shares with the public by *Rootes Motors*, the holding company of the Humber, Hillman, Commer, Sunbeam, Talbot group. The company has an issued capital of

£3,025,000, of which £1 million of ordinary shares are held entirely by the Rootes family and the Prudential Assurance Company. It is proposed to offer £2 million 5 per cent. preference shares at par, of which one quarter are being taken firm by the Prudential. The shares are redeemable at falling rates of premium but there is no final redemption date. That is to say, the terms offer protection against liquidation but none against a rise in the rate of interest, since if the rate rises there will be no question of the option to redeem being exercised by the company. The operation will clear the decks for further expansion by permitting the repayment of a debenture now held by the "Pru."

### Courtaulds (Australia)

Shareholders in *Courtaulds* will probably have learned with mixed feelings of the detailed proposals for setting up a Courtauld associate in Australia. A long time ago this company found it necessary to set up a subsidiary in America, the Viscose Corporation, which it was compelled to sell during the war. Later there grew up a Canadian affiliate. Now Australia is to manufacture a large part of her own viscose and acetate rayon yarn instead of importing them from the U.S.A. and this country respectively. So against any direct gain of Courtaulds is to be set the gradual loss of the Australian market—at least until new markets can be found for the displaced exports.

Courtaulds shareholders in this country will have no direct participation in the new concern, but in exchange for £1,500,000 in cash and the benefit of much past experience the parent company will obtain rather over one-third of the original equity in the company, of which part will, however, be in deferred shares entitled to no dividend until 5 per cent. has been distributed on the ordinary capital. Courtaulds will be under an obligation for twenty years to share information with the Australian company. Two factories are planned, the one to produce continuous

filament viscose yarn for motor tyres and similar purposes and the other acetate textile yarn for use in the local weaving and knitting industries whose capacity it is intended to expand.

### Practical Investment

A book under the above title appearing this month is mainly a reprint of articles published in the *Investors' Chronicle* during 1947 and 1948. There are plenty of books on

investment, most of which either advocate a system or concern some special branch of this complex subject. *Practical Investment* falls into neither of these categories : it is an attempt to answer those questions which working financial journalists know are perpetually being asked by investors, and it does it very well. The questions range from the very simple to the fairly complex and the book is not restricted to the various types of Stock Exchange investment. It has

chapters on investment through the post office, on life assurance and in real property. There is also something about how the market works, how to read accounts and even an excursion into income tax and profits tax. In fact the 270-odd pages of type are tightly packed with information, much of which is valuable to the normal run of investors. It is obtainable at the price of 12s. 6d. net from the *Investor's Chronicle*, 72 Coleman Street, London, E.C.2.

## Points from Published Accounts

### Odeon Theatres Features

The consolidated accounts of *Odeon Theatres*, apart from having sounded the Lutine bell for British film production, are a remarkable instance of the bringing into credit, before striking the book loss for the year, of a series of extraordinary and non-recurring items. They could, indeed, stand as the exemplar of much that is criticised by those who accept the views set out in our Professional Note "Net Profit in Published Accounts" on page 315.

The balance brought to profit and loss includes a non-recurring credit of £1,296,466 "resulting from a change in the basis of valuation of films." Just over a year ago Mr. Rank told shareholders that a new method of valuing stocks of released films had been devised, based on graduated amortisation tables worked out by the company's accountants and approved by the Inland Revenue. This method was thrown overboard before the year-end, because it would result in losses being carried forward and thus deferred until subsequent years. But another change in the method of valuation of films has apparently been made which on balance benefits the latest profits substantially.\*

The report makes an astonishing admission :

The devaluation of the pound sterling in September, 1949, increased the sterling value of unmatured film revenues in a number of territories : this increase has been taken into account in the valuation of films in so far as estimated revenue from the U.S.A. and Canada are concerned, but not elsewhere.

Devaluation did not occur until nearly three months after the closing of the accounts ! It increased the value of many companies' stocks, but if there is another which has taken financial cognisance of this world-shattering event in its audited accounts drawn up at a pre-devaluation date then it has escaped our notice.

\*See Professional Note on page 316 "Valuation of Films in Accounts."

Another surprising feature flows from the fact that a company controlled by Mr. and Mrs. Rank made loans of £648,757 to Odeon Theatres. These loans have been waived, and they are brought to the credit of profit and loss account. Surely a more orthodox method of treatment would have been to apply this windfall to write down the stake in *General Cinema Finance Corporation*, since the loans represented part of the purchase consideration for that

concern ? Rather ironically, Odeon Theatres cannot take credit for the fact that Mr. and Mrs. Rank have made a gift of £24,262 gross interest on the loan ; and despite this and the other *beau geste* of the Ranks we must not lose sight of the fact, displayed by the accounts, that *General Cinema Finance Corporation* has so far proved to be a white elephant from a revenue point of view.

It is illuminating to reproduce the latest consolidated profit and loss figures, together with a breakdown made by the *Economist*. It will be seen that computing the loss of the group for the year on a strict but not unduly conservative basis, it amounted to £3,528,615 compared with a "net" loss of

### CONSOLIDATED PROFIT AND LOSS ACCOUNT AS RE-CAST BY THE ECONOMIST

|  | Periods to<br>26.6.1948 | Periods to<br>25.6.1949 |
|--|-------------------------|-------------------------|
| Trading profits less losses ..                                       | .. 5,908,809            | .. 290,890              |
| Other normal income ..   | .. 313,398              | .. 272,648              |
| <b>Total income ..</b>   | <b>6,222,207</b>        | <b>563,538</b>          |
| <i>Less :</i>  |                         |                         |
| Depreciation ..  | 977,653                 | 1,169,779               |
| Audit fees ..  | 40,273                  | 59,584                  |
| Debenture and Bank Interest ..                                       | 1,028,549               | 1,377,808               |
| <b>Net profit or Loss ..</b>   | <b>4,175,732</b>        | <b>Dr. 2,043,211</b>    |
| Taxation ..  | 2,564,085               | 716,729                 |
| Profits attributable to outside shareholders ..                      | 941,747                 | 669,780                 |
| Sundry charges less profits ..                                       | 86,549                  | 98,896                  |
| Transferred to reserve ..  | 403,660                 | Nil                     |
| <b>Distributable Profit or Loss ..</b>                               | <b>179,691</b>          | <b>Dr. 3,528,615</b>    |
| <i>Special Credits :</i>   |                         |                         |
| Non-recurring credit arising from changed basis of film valuation .. | —                       | 1,296,466               |
| Taxation ..  | 54,458                  | 234,091                 |
| Withdrawn from reserves ..   | —                       | 1,341,494               |
| Loans waived by holding company ..                                   | —                       | 648,757                 |
| <b>Profit as adjusted ..</b>   | <b>234,149</b>          | <b>Dr. 7,700</b>        |
| Preference dividend ..   | 90,750                  | 90,750                  |
| Ordinary dividend ..   | 165,723                 | 35,594                  |
| Drawn on carry-forward ..  | 22,324                  | 133,340                 |

CONSOLIDATED PROFIT AND LOSS ACCOUNT AS CIRCULATED BY COMPANY  
For the periods ended within the 52 weeks to June 25, 1949

|  | £                 |  | £                 |
|--|-------------------|--|-------------------|
| Depreciation and amortisation of Buildings, Plant and Equipment                                | 1,169,779         | Trading Profits <i>less</i> Losses (including a non-recurring credit amounting to £1,296,466 resulting from a change in the basis of valuation of films) | 1,587,356         |
| Audit Fees   | 59,584            | Interest Receivable (gross)  | 61,843            |
| Interest on Debentures and other Fixed Loans   | 757,548           | Income from Trade Investments (gross)  | 190,246           |
| Interest on Bank Loans and Overdrafts  | 619,841           | Income from Other Investments (gross)  | 3,664             |
|  |                   | Accretion in value of Sinking Fund Policies  | 16,896            |
|  |                   | Net Loss   | 746,747           |
|  | <u>£2,606,752</u> |  | <u>£2,606,752</u> |
| Net Loss   | 746,747           | Net Profit subject to taxation   | —                 |
| Taxation on the Profits of the periods :   |                   | Balance brought forward £166,334   |                   |
| Profit Tax .. £330,962   |                   | Add Balances of Subsidiaries not previously consolidated .. 2,291  |                   |
| Income Tax .. 895,767  |                   | —  | 168,625           |
|  | <u>1,226,729</u>  | Amount set aside for taxation no longer required 286,602   |                   |
| Less Income Tax recoverable .. 510,000   |                   | —  |                   |
|  | <u>716,729</u>    | Less Provisions of liquidated Subsidiaries transferred to Capital Res. 51,765  | <u>234,837</u>    |
| Prov. for retrospective profits tax ..   |                   | Profit on redemption of Debentures .. 20,875   |                   |
| Prov. of Profits <i>less</i> Losses attributable to Outside Shareholders of Subsidiaries ..    |                   | —  |                   |
| Profits and withdrawals from prov. for periods prior to acquisition of certain subsidiaries .. | 85,345            | Non-recurring profits ..   | —                 |
| Items relating to prior years and net loss on sale of Fixed Assets ..                          | 36,714            | Amounts withdrawn from Reserves :  |                   |
| Transfers to General and Equalisation of Repairs Reserves ..                                   |                   | General Reserves .. 1,161,852  |                   |
| Dividends:   |                   | —  |                   |
| Preference dividend for the year ended June 30, 1949, <i>less</i> income tax ..                | 90,750            | Equalisation of Repairs 179,642  | <u>1,341,494</u>  |
| Interim dividend on the Ordinary shares of 3½ per cent. free of income tax ..                  | 35,513            | —  |                   |
| Final dividend on the Ordinary shares free of income tax ..                                    |                   | Loans waived by Holding Company after June 25, 1949 .. 648,757   |                   |
|  |                   | —  |                   |
| Balance carried to balance sheet ..  | 126,263           |  |                   |
|  | <u>33,010</u>     |  |                   |
|  | <u>£2,414,588</u> |  | <u>£2,414,588</u> |

£746,747 shown in the published accounts a formidable difference!

Earlier this year we discussed in these columns the significance of the accounting date, and questioned whether auditors should recognise developments thereafter. After the financial year has ended, and before the audit is complete, a business might have been placed in the hands of a receiver, or the factory destroyed, or a

fantastic claim made against the company for infringement of patents. It may be recalled that after the termination of the *Cable & Wireless (Holding)* financial year the company received some millions of compensation money, and the auditors drew attention to the fact in a footnote to the accounts. The time seems to have come when the accounting profession should say with a firm voice that developments sub-

sequent to any particular financial year should not be recognised in the accounts of that year, though they may, if material, be noted by way of commentary on the accounts. If it is accepted that a balance sheet pinpoints the position at a particular moment then there can be no justification for its reflecting developments after that particular moment.

### Demande et Réponse

“... the manner in which the *Thomas De La Rue* accounts have been drawn in effect circumvents the provisions of the Companies Act, 1948, in that the accounts conceal the losses incurred by subsidiary companies.” Any auditor who saw such a criticism of accounts he had audited would blanch, and so it will be of wide interest to examine the reasons for this forthright comment in the *Investors' Chronicle*. It springs from the statement of movements into and out of capital reserve, amongst which appears an amount of £599,758 applied for the purpose of writing off: “Goodwill, Pre-production Expenses and balances on Profit and Loss Account of Subsidiaries liquidated.” The point is made that liquidation of these subsidiary companies, in effect, is purely a technicality under the internal reorganisation of the group, but that in fact it has served to cloak the losses sustained by these subsidiaries, and therefore the actual trading experience of the group as a whole.

At the annual general meeting the chairman said: “Since the publication of the accounts certain criticisms have been made in the financial columns of the Press that by reabsorbing the subsidiary companies the actual profits of the group can only be approximately assessed. I think this is probably true, but the losses *eliminated* from the group earnings were not normal trading losses, as I shall explain later. . . . If these companies had still been subsidiaries the net group profit would have been £113,628, and as we have distributed £136,950 in dividends we should on that basis have distributed £23,322 more than the group earnings for the year.” The purpose of the reabsorption of the subsidiaries by the parent is to enable a saving in taxation should their operations continue to be unprofitable. Says the chairman: “For the future, our taxation liability will be related to the net profits of the whole undertaking, instead of, as now, to profits earned with no set-off for losses.”

If full explanation had been given with the report the intelligentsia of the investment world would have been spared possible anxiety. The allegorical pill is always bitter, but some patients don't like their medicine sugar-coated.

# Publications

**MANAGEMENT PLANNING AND CONTROL.** By Billy E. Goetz, Professor of Business Administration, Antioch College. (McGraw-Hill Book Co., Inc., New York and London. Price £1 12s. net.)

Many of the qualities of character, intelligence and intuition required by a good business man are inborn and cannot be acquired by study. Nevertheless, just as physicists and metallurgists, by controlling furnace conditions and determining the exact and best times and temperatures in each case, have been able to eliminate much of the former guess work and intuition from the heat treatment of metals, so a number of the problems a business man may be able to answer by intuition can, in fact, be formulated and solved by reasoning and calculation.

This book by the Professor of Business Administration of Antioch College, U.S.A., describes the theory behind the solutions of many such problems. The author states that his book is about accounting and particularly about how cost accounting should be changed to produce data of greater value to management. In addition, however, it clearly and briefly describes the very best practices of planning, controlling and organising the conduct of manufacturing enterprises.

Judged by the stimulus it provides to the minds of its readers, this is a very good book indeed and the author's ideas will give almost any business man, accountant or production engineer many new and valuable lines of thought.

There is little doubt that purposeful direction is the biggest individual factor in the success of any business. There is little doubt too that the establishment of over-all targets, broken down throughout the organisation into individual targets and responsibilities, and the measurement of actual performances against those targets, is of the greatest help in achieving purposeful direction. The author is, of course, an advocate of such purposeful direction and planning, but his most interesting ideas concern calculating in advance the financial effects of changes in situations and of adopting alternative courses of action. The analysis of alternatives to select the most desirable is described as a most important function of management. The purpose of costing is, therefore, not just to ascertain costs but to reveal how expenses and revenues are likely to change as one programme is substituted for another and to assist in solving similar problems.

It is pointed out that the displacement of hourly paid workmen by fixed machines has caused factories to become less flexible. Furthermore, the specialisation and integration of plant layouts necessary to achieve efficient mass production has caused more and more capital to be locked up in extremely expensive single-purpose and often automatic plant as distinct from the more versatile and less costly general-purpose machines of former times—much production has, in fact, now become continuous process and mechanically handled throughout. On the other hand, the rate of technological change in methods, equipment, materials and product design has increased.

The scale and inflexibility of modern enterprise make experimentation expensive, and the consequences of management's errors are more serious. Management, therefore, requires foresight, logical analysis and sound judgment far beyond the requirements of simpler times and, in particular, the concepts of opportunity costs, of incremental costs and revenues, of standard costs and variances, and of budgets, need to be understood and used.

The requirements both of legal-financial or historical accounting and of management accounting, under these circumstances, are clearly stated by the author who, among other things, strongly advocates a very detailed basic analysis of expenditure, only items of a homogeneous nature and with the same behaviour pattern being classified together, so that basic cost data can be readily obtained and easily grouped and regrouped as various management needs arise.

In the basic records homogeneous elements should not be divided and prorated; for example, burden charges should not be chopped up and lost in a maze of allocations to departments, re-allocations of service departments' charges to processing departments and further re-allocations to products and jobs. The author points out that alternative programmes may differ as to their departmental processing or operational content, and so long as homogeneous primary groupings are kept readily accessible any amount of subsequent allocation can be made outside the accounting and costing records.

Many problems requiring a management choice from alternative solutions are considered and the errors of conventional costing are revealed by analysis of the real incremental movements of income and

expenses—the emphasis throughout being on the financial effect of changes in plan and policies.

The main functions of research, procurement, distribution, planning and control and the organisational procedures of a productive enterprise, are brilliantly described and standards used to plan and control work within each function are given. Individual product costs are illustrated in detail, together with simple records giving all adequate information about direct materials, direct labour and burden.

The author's theories on management planning in terms of increments are fully illustrated by the detailed examination of three problems :

1. On the expiry of the lease of a certain factory the management had to choose whether to :
  - (i) renew the existing lease ;
  - or (ii) buy another factory ;
  - or (iii) build a factory on a distant site.
2. The determination of the most economical sized batch of an article to manufacture.
3. Fixing a sales price.

The author has rendered invaluable service in stressing and describing the use of incremental costs and revenues in forecasting and planning. He states that his book was twenty years in the making: the result is brilliant and worthy of most careful study by all connected with productive enterprise.

N. G. L.

**CORPORATION FINANCE.** By C. A. Ashley. (The Macmillan Company, Toronto. Price \$2.50 net.)

This interesting book on Canadian company finance has been misnamed. With Canadian company finance it certainly does not deal, and the author is in no way blame-worthy if the English reader finds no examples of company operations in Great Britain. But considerable space is devoted to the mystique of company promotion and management, and on this ground the work is open to some criticism. Many pages are taken up with a treatment, inevitably superficial, of the economics of combination and monopoly, and of large-scale operations in commerce and industry. It is clear from the list of suggested reading, although his approach to the subject amply testifies to it, that Professor Ashley believes in wide horizons. Marshall's *Principles* finds a place with the first Lord Melchett's *Industry and Politics* and with Professor Robson's *Public Enterprise*. It is therefore surprising that within the wide range of literature recommended the author should omit Hargreaves Parkinson's *Scientific Investment*, the main modern exposition of the relative merits of the wide variety of company securities.

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The value of this book would have been enhanced had there been a more concise analysis of the problems arising from the conflict, in company organisation, between the interest of vendor, promoter, debenture-holders and the different classes of shareholders. It would have been an advantage, too, if the consequences of the vital modern practice of ploughing back profits, referred to on page 110, had been amplified immediately, instead of being almost casually treated in a general appendix on profits and dividends, far removed from the main text.

Yet, in spite of weaknesses, the book has much to commend it. It is informative without an overwhelming and indiscriminate use of technical jargon, and should be comprehensible to any well-informed layman. It is written in an easy style, not without some dry humour, and even when a reader might feel induced to exclaim, "O, Private Enterprise, what sins are committed in thy name!", Professor Ashley's sense of objectivity and cool detachment is clearly maintained.

G.S.

BOUGHT LEDGER SYSTEMS. By A. Bradley. (Office Management Association, Ltd., 7, Southampton Place, Bloomsbury Square, London, W.C.1. Price 2s. 6d. net.)

This booklet is based on a paper delivered by Mr. A. Bradley (Head of Administration Department, Ford Motor Company, Ltd.) at a Conference of the Office Management Association.

The systems are not described in great detail since the paper was written primarily to stimulate discussion at the Conference. Within the limitation of space (the booklet contains eleven pages of wording supplemented by illustrations) the author has nevertheless covered a broad field. The booklet deals principally with standard invoices, control of suppliers' invoices and methods of posting ledgers. The posting methods described are (a) manual, (b) typewritten, (c) ledger-posting machines, (d) punchcard, and (e) hectographic master list.

Mr. Bradley discusses the advantages and disadvantages of the various techniques and also describes in some detail the different types of ledger-posting machines which are available. He also gives very useful information regarding ledger-posting combined with analysis for posting to expense accounts so as to effect the maximum saving of time and expense.

Auditors will be interested to read Mr. Bradley's remarks on the methods of controlling invoices, as this is a point to which an auditor must always devote his attention. Mr. Bradley points out the dangers of the hand-written or typewritten register, including the particular difficulty of listing

outstanding invoices which have not been marked off as passed for payment and entered through the financial books. It is suggested in the booklet that these disadvantages are not inherent in punch-card operations, and the procedure for determining outstanding invoices is considerably simplified with less risk of error or omission.

The booklet also mentions various methods of payment of suppliers' accounts, including traders' credit systems, but the author does not mention any of the disadvantages which readers will have met in practice.

The reader will find particularly valuable the appendices setting out specimen standard invoices and the appropriate ledger sheets, remittance advices, day books, and control accounts for the systems which are outlined.

It is felt that the booklet gives useful information for the practitioner when advising on the installation of accounting systems. The auditing aspects of bought ledgers, being outside the scope of the paper, are not referred to, but there is much useful information which will be helpful to auditors when engaged on the affairs of clients who use any of the systems described.

H. M.C.E.

BUCKLEY ON THE COMPANIES ACTS. By the late The Right Hon. Lord Wrenbury. Twelfth edition by The Hon. D. B. Buckley and others. (Butterworth & Co. (Publishers), Ltd., London. Price £5 5s. net.)

That another *Buckley* was required to cover the Companies Act of 1948 was certain; but we could not be sure that it would be even more comprehensive and elucidating than the previous issues. In the event, however, the high standard of this famous work has been maintained. Though the familiar form of dealing with each Section in order remains, there are a number of additions and improvements. Indeed, it truly retains that degree of authority that has distinguished all previous editions, and is certainly the most complete treatise so far seen on company law as embodied in the Companies Acts.

The one note of regret is that this is the first edition which will not have had the watching brief of the late Lord Wrenbury (formerly Lord Justice Buckley), who first published the work in 1872. But it is pleasing to find his son, the Hon. D. B. Buckley, M.B.E., M.A., carrying on the work. In this edition he has had the assistance of a staff well qualified for the work—Nigel Warren, B.A., and G. Brian Parker, M.A., LL.B., with Cecil Turner as Consulting Editor, not perhaps an apt designation, for it is understood that he has devoted much more time and thought than this title suggests.

This edition is amply provided with references and the reader should have no difficulty, not only in finding a particular point to which he wishes to refer but also in having at his fingers any case to which he wants to turn for additional information, as the Table of Cases now contains complete references for all the cases cited. A further pleasing factor is that the case names in the footnotes are now given in full instead of in the somewhat abbreviated form previously employed. The present edition is also more fully provided with cross-references than the earlier ones, happily in an easier style to follow than certain official publications of which practising accountants will only be too well aware.

In addition to the main body of the work—the Companies Act, 1948—there are further sections covering the Winding-up Rules, the various Orders made in 1929 and 1930 in respect of fees, and the Companies Act, 1947. The latter covers those Sections of the previous Acts unpealed by the 1948 Act—the registration of business names, various bankruptcy and winding-up provisions and measures for the prevention of fraud in unit trusts. Also included are the Rules of the Supreme Court in relation to applications made under various regulations of the Act, and appendices containing copies of all the forms for use within the purposes of the Act. The reader will also find the two comparative tables of assistance. One table lists the Sections of the 1948 Act and the other lists the Clauses of Table A; in the adjoining columns are given, as closely as is possible, the corresponding Sections or Clauses of the previous statutes. One can thus trace the history of each Section of the latest Act. However, some readers may prefer facts to figures; they should be well satisfied because most sections, in addition to the practical explanations given, contain an historical background of the particular enactment.

The practical explanations given are worthy of special comment. They are built up from case law in a lucid and logical sequence, making the work, despite its magnitude, essentially readable—a point which is certain to please every member of the accounting profession, who so often have experience of the lack of literary standards in official publications. How often has the accountant taken up his copy of the Companies Act, 1948, and a little later exclaimed with asperity: "Does this really answer my query?"

Many accountants gave evidence before the Cohen Committee and obviously much of their advice is now embodied in the Act. But there are a number of points on which in practice members of the profession have had to seek advice. The editors of this work would never pretend to have answered

these points—indeed, it would be an almost impossible task for them to do so—but they are to be congratulated on calling the readers' attention to a number of points of doubt which they consider arise in the Act. In some instances they have suggested answers. There is already a call for some revision of the Eighth Schedule, and though it is perhaps almost invidious to give specific examples of the excellence of this book, the reader will find some useful comments and explanations to this Schedule.

For the first time, the editors have included certain non-statutory matter, an innovation that is certain to please. This is contained in four appendices. The first consists of the notes issued by the Registrar of Companies on the practice of his department in respect of the names that companies may use; the second contains the notes issued by the Board of Trade for the guidance of an application to dispense with "Limited" when forming charitable and other companies; the third gives the regulations issued by the Board of Trade concerning the receipt and payment of monies in liquidation, including notes as to the company's liability for taxation; the fourth gives extracts from the Rules of the Stock Exchange in relation to an application for permission for shares to be dealt in or quoted on the Stock Exchange. A fifth

appendix sets out the regulations and enactments in respect of the control of borrowing and raising capital.

Within the scope of a review it is impossible to describe fully the contents of this work, but any reviewer has an initial advantage in that it needs no introduction to accountants. Suffice it to say that the new edition should adequately repay all the immense effort that must have been put into its preparation by its eminent editorial team. No one would claim it to be a work for students, but, like all the previous editions, it will assuredly become part of the library of every practitioner who wants to be certain that he has a work of the highest authority to which he can instantly refer when confronted with the many involved and intricate points on company law which consistently arise in the work and practice of all accountants.

J. D. N.

GUIDE TO EXAMINATION SUCCESS. By Frank H. Jones, F.A.C.C.A., A.C.I.S. (Barkeley Book Co., Ltd., 39, Lansdowne Road, Stanmore, Middlesex. Price 7s. 6d. net.)

"When you write a letter to a person, you naturally consider that person's reactions when he reads it. Follow the same practice at an examination; it is excellent strategy!" Considerable know-

ledge of a subject is of little avail to a student if he is unable to arrange it in a form which is readable and free of ambiguity. The letter which Mr. Jones has addressed to examination candidates in his little book is itself a very good example of consideration for the reactions of the reader. The author, bearing in mind the heavy demands on the time of a student, has provided neatly and concisely a wealth of advice and encouragement for all who intend to sit for an examination. In covering the preparatory study and the sitting for the examination from every aspect, including the psychological, Mr. Jones draws on a wide experience both as student and as examiner.

The various types of coaching facilities are discussed and useful recommendations are made for the planning of study. The remarks on note-taking are particularly worthy of attention.

Those to whom the examination itself is a frightening prospect should derive greater confidence from the instructions in examination tactics. All constructive work requires some kind of strategy or plan, and the passing of examinations is no exception to this rule. This guide should greatly assist the prospective examination candidate in the direction of his efforts.

J. A. A.

## Letters to the Editor

### "Hints for Examiners"

SIR,—I have not the advantage of being a member of your Society, but I am a student-member of a professional organisation with similar examination standards. As an examinee I was very interested in a recent article in ACCOUNTANCY addressed to examiners.

May I, firstly, express my agreement with your contributor on the subject of taking reference matter into the examination chamber. As he rightly points out, text books are normally too clumsy to be of practical use in the circumstances. But copies of various applicable Acts of Parliament, particularly those relating to companies, partnerships and taxation, could reasonably be permitted, even if not actually provided as examination equipment. An examinee ought to be well acquainted with the details of these statutes, but surely should not be expected to remember the contents of each Section, or expected to quote an applicable Section by its number, as appears to be required in current examination papers. For example, an accountant must, to be efficient, have an excellent knowledge of company law, but he does not know the contents of each of the 462 Sections and 18 Schedules of the Companies Act, 1948. Instead, he knows the gist of the Act and has a copy of it on his desk to confirm

and amplify his knowledge and lend authority to his decisions.

Another point of interest which was raised was that of the time factor in examinations. From my own experience, I would suggest that the time allocated to any particular paper is sufficient if, but only if, the examinee is capable of answering the questions without having to spend time racking his brains over some forgotten detail or making an intelligent guess at an otherwise hopeless task. With this matter of knowledge is bound up the matter of technique. Your contributor, apparently, commences his examination by reading through all the questions and deciding on his method of approach to each one before he starts to write. May I suggest that this method both wastes valuable time and tends to breed a feeling of despair? My own method is to glance through the questions until one is found which can be answered easily—and then to answer it. Then proceed to the next question which can be answered with a minimum of effort, meanwhile completely ignoring all others. This has the advantage of getting some mark-earning material down on paper and it gives that good start which makes for confidence. It saves spending time puzzling over the approach to a question which presents difficulty when, by

leaving all consideration of the problem until the end of the period, any such wasted time is wasted on that question alone and does not affect the remainder of the paper.

One last point I should like to mention, and though it will doubtless call on me the curse of examiners, I hope to receive a little sympathy from them also. My handwriting, particularly at speed, is atrocious. I endeavour to make it legible, but it is untidy and does not give a good first impression. When sitting for examinations I make little, or no, attempt to preserve neatness, being content to sacrifice this quality to speed. To my own examiners I wish to hand a bouquet—they do not yet appear to have penalised me on this score. Nevertheless, it is apparent, on glancing round an examination room, that many candidates are taking some pains with their calligraphy to the obvious detriment of their output. I feel that examinees realise the speed required and also know full well the importance of the examination to the candidate's career. In the light of this knowledge, they will not disregard or penalise an untidy paper so long as it is legible.

As a footnote, may I put in a selfish plea for the smoker? Could not some arrangement be made to permit us to smoke in the examination room? Medical opinions may differ, but in my own case I do find that a cigarette aids my powers of concentration.

Yours faithfully,

P. T. AUSTIN.

London.

November 9, 1949.

## Legal Notes

*Deposit of securities in England by foreign bank on behalf of foreign customer—Delivery of the securities by foreign bank to customer illegal under laws of the foreign country—Legal position of holder of the securities in England.*

The House of Lords has considered in two recent cases the extent to which the courts of this country will give effect to the exchange laws of a foreign country. In *Kahler v. Midland Bank, Ltd.* (1949, 2 A.E.R. 621) the short facts were as follows: The appellant, K, bought some securities on the London Stock Exchange. He was a Czechoslovak national resident in Prague and in 1938 he became a customer of the Z bank in Prague. The Z bank asked the respondents, the Midland Bank, to hold the securities on their account without stating that K was the owner, and the Midland Bank agreed to hold them. In 1939 K left Czechoslovakia and subsequently became a naturalised American citizen. Before he left, he was compelled by the German authorities to transfer his account from the Z bank to another bank in Czechoslovakia, the B bank: the Midland Bank was notified of this. There were other transactions by the Germans, the legality of which their Lordships refused to recognise, and it was accepted that at all material times K was the owner of the securities, none of the banks claiming any beneficial interest. However, by Czechoslovak law it was illegal for the B bank to deliver the securities to K (although he had left the country) without the consent of the Czechoslovak National Bank, and this consent was refused. Under these circumstances K brought an action against the Midland Bank for an order that they should deliver up the securities to him.

Their Lordships held unanimously that the customer of the Midland Bank was the B bank and that there was no contract between the Midland Bank and K. They also held by a majority (Lord MacDermott and Lord Reid dissenting) that K could not establish a claim in detinue: it must be assumed that the law of Czechoslovakia was intended to govern the delivery of the securities on the termination of the bailment between K and the B bank, and as it was illegal under that law for the B bank to deliver up to K the securities, K could not prove any right to immediate possession of

the securities; therefore the Midland Bank was not bound to deliver them up to him.

In *Zivnostenska Banka National Corporation v. Frankman* (1949 *Weekly Notes* 392) a similar point arose for decision. Bonds had been bought in London and deposited in the London branch of the Z bank by a Czechoslovak national, who was a customer of the Z bank but not of its London branch. The ownership of the bonds eventually passed to the respondent, F, who was a naturalised British subject. Under English law F was entitled to possession of the bonds but under Czechoslovak law it was again illegal for the bank to deliver the bonds to him without the consent of the Czechoslovak National Bank, and this consent was refused. Their Lordships held that the contract was governed by the law of Czechoslovakia and that the English courts would not enforce performance by the bank of a transaction contrary to that law. Lord Simonds referred to the principle that an English court will not enforce a penal or confiscatory law of another country, but said that there was no reason why this principle should be applied in the case of a law which did not differ in material respects from the legislation contemplated by the Bretton Woods Agreement which was now part of the law of this country.

### *Abolition of office by statute—Measure of compensation.*

Several recent Acts have provided for the payment of compensation to persons who will lose their offices or appointments as a result of those Acts. One example is the City of London (Tithes) Act, 1947, and a decision by the Court of Appeal in the case of *Price v. Corporation of London*, 1949 (*Weekly Notes* 393) on the measure of compensation to be paid under that Act is of general concern to those who assume office at a time when there is a likelihood of that office being abolished by statute.

The appellant was the collector of tithes in three City parishes. Two of these offices he had held for several years and he could reasonably have anticipated that they would be permanent: the Judge of the Mayor's and City of London Court accordingly awarded him compensation amount-

ing to ten years' salary, subject to certain small deductions, and against this award no appeal was made. The third office he had only assumed at the end of 1945 and in their letter of appointment the churchwardens said: "In view of the statement in this week's City Press it will be clear to you that the appointment is not likely to be permanent." The Press statement had referred to the introduction of a Bill abolishing tithes in the City. Under these circumstances the Judge held that the appellant could not have expected the appointment to be permanent and that he was only entitled to payment of a sum which would make up his salary for the last three months of 1947. The Court of Appeal affirmed this decision.

### *Duty of executors not to distribute assets while proceedings are pending or possible under the Inheritance (Family Provision) Act, 1938.*

Before 1938 a testator was quite free, if he so wished, to cut off every member of his family with a shilling. Under the Inheritance (Family Provision) Act, 1938, spouses and children dependent upon the deceased who have been left nothing or only a small proportion of the estate are entitled to apply to the Court, under certain circumstances, for an order that they should be granted reasonable maintenance out of the estate; the application must be made within six months from the date on which representation in regard to the testator's estate for general purposes is first taken out.

In *re Simson, Simson v. National Provincial Bank*, 1949 (*Weekly Notes* 420) a widow applied and was awarded maintenance in the form of charges on legacies which had already been distributed. The details of the distribution are of concern only to the parties, but Vaisey, J., made it plain as a general principle that it is the paramount duty of executors not to make any distribution among beneficiaries while proceedings are pending or possible under the Inheritance (Family Provision) Act, 1938.

### *Nationalisation of Australian banks invalid.*

The Judicial Committee of the Privy Council has now given its reasons for dismissing the appeal by the Commonwealth of Australia against the decision of the High Court of Australia that Section 46 of the Banking Act offended against Section 92 of the Constitution and was invalid. The case was *Commonwealth of Australia v. Bank of New South Wales*, 1949 (*Weekly Notes* 410). The first ground was procedural: leave of the High Court was essential before any appeal could be taken to the Privy Council and no leave had been given. The second ground was that by Section 92 of the Constitution "trade, commerce and intercourse

among the States . . . shall be absolutely free": banking was held to be included in the expression "trade, commerce and intercourse," and Section 46, which prohibited the carrying on of the business of banking by private banks in Australia, attempted to restrict directly the

inter-State business of banking. The Section was therefore invalid.

The case illustrates an important difference between the Constitutions of the United Kingdom and some other Commonwealth countries. Here there is no Constitution or "basic law" which prohibits

the nationalisation of banking or any other activity. Part of the United Kingdom Constitution is indeed written, for example, the Parliament Act, 1911, so soon to be amended, but any statute passed according to the existing law is legally constitutional and cannot be questioned in any Court.

## "The Accountant"

WE EXTEND HEARTY CONGRATULATIONS TO our distinguished contemporary *The Accountant* upon the seventy-fifth anniversary of its foundation in October, 1874. The occasion was celebrated by a dinner in London on November 2, 1949. The guests, who numbered 350, included many representatives of the accountancy, legal and banking professions, commercial, industrial and business circles, the universities, learned societies and the Press.

The toast of "The Accountant" was proposed by Sir Russell Kettle, F.C.A., President, the Institute of Chartered Accountants in England and Wales, who said that its 120 completed volumes revealed the emergence over a comparatively short space of time of a profession whose duties and responsibilities had been widely extended since those early days. Through its pages passed the great figures whose names they honoured for the parts they played in founding the profession and in firmly establishing its reputation for competence, independence and integrity. Towards this progress *The Accountant* might justly claim to have made a material contribution.

The profession had long since attained world-wide status, but this country was its birthplace, and the practice of accountancy was now carried on in many parts of the globe in conformity with the standards which their pioneers established and which *The Accountant* had done so much to foster.

Replying to the toast, Mr. Derek du Pré, Editor of *The Accountant*, said that the onlooker was said to see most of the game. He felt that the editor of a professional journal, knowing the rules of the game that he watched so closely, was in that position. Seventy-five years ago, the editor of *The Accountant* wrote: "We hope to receive the hearty support of all accountants." He was proud and happy to be able to say that hope had been amply fulfilled, and he gladly acknowledged the help and co-operation that they had received from the three great bodies of accountants—the Institute of Chartered Accountants in England and Wales, the Society of Incorporated Accountants and Auditors, and the

Association of Certified and Corporate Accountants.

Mr. Ronald Staples, as Editor-in-Chief of *The Accountant*, occupied a position analogous to that of a captain; without his wise counsel their ship would not have steamed on so steadily and for so long.

Proposing a toast to accountants and economists, The Rt. Hon. W. Glenvil Hall, M.P., Financial Secretary to the Treasury, said that it seemed to him at first glance a rather curious thing to associate accountants with economists. Economists with politicians, if they liked, because he had been told that some of their present Government began life as economists, but an accountant was one who believed in accuracy. (Laughter.) To him, two and two always made four, but when an economist talked about the theory of value or the wages fund, or, thinking of this evening, what some might call "consumers' surplus," they could never be sure that they meant the same thing when they used the same words. Nevertheless, there obviously was a very close association, particularly in these later years, between accountants and economists.

In recent years so important had the accountancy profession become that it had been arranged that those studying to become accountants should also take a course in economics, coupled with the usual courses which they took before they were admitted to membership of the Chartered or Incorporated societies. Accountancy to-day was one of the leading professions, and those who practised it must not only know something about figures but have a wide and varied knowledge over a considerable field. He thought that they all agreed that any statement of accounts signed by a firm of Chartered or Incorporated accountants was accepted anywhere—certainly by those on the Treasury and their friends of the Inland Revenue—as something which they knew to be quite accurate. That was, as the mover of the previous toast had reminded them, a very great advance on the early days.

The Rt. Hon. Lord Piercy, C.B.E. (director, Bank of England; chairman,

Industrial and Commercial Finance Corporation, Ltd.) replied to the toast, saying that looking at it historically, even over the last seventy-five years, accountancy was a technique which had developed as business practice had developed. It arose out of business practice and it developed with it. No doubt there were reciprocal influences that provided the means whereby a better sort of business practice could be more widely spread. It was in the course of this particular task that the accountant met with and must extend according to the requirements of the business these concepts of capital, income, costs and the like.

No doubt the accountant, particularly in recent decades, had elaborated these conceptions very greatly; he had been obliged to elaborate them as public responsibility in connection with limited liability companies had increased upon him, and still more as taxation had become such an important factor in business life. These concepts were undoubtedly his intellectual stock-in-trade and they were being further refined and elaborated by him. He was for all practical purposes practising his technique. He was not a theorist; he was not an inventor. The economist was quite a different kind of animal. He was primarily a theorist and his connection with practice was, in the first instance, to distil a theory out of it.

The toast of "Our Guests" was proposed by Mr. Ronald Staples, the chairman, who said it was a great joy to them of *The Accountant* to have reached the respectable age of seventy-five years and still feel that they had an ever-growing circle of friends who were so well represented by the distinguished company that had gathered to wish them many happy returns of the day.

Sir Robert Sinclair, K.C.B., K.B.E., chairman, Federation of British Industries, who replied to the toast, said that the sprightly youngster of seventy-five, who had waxed strong in an age during which, as they had been told, income tax had risen from 2d. in the £ to its present astronomical heights, had moved with the times—a small "t," of course—and had faithfully reflected and he believed, stimulated as well, the very considerable development which had taken place in the accountancy profession and which had been so marked, particularly in the last decade.

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## THE SOCIETY OF

# Incorporated Accountants

### "IMAGINATIVE" ACCOUNTS?

AT A LUNCHEON OF THE INCORPORATED Accountants' London and District Society on November 1, at which Mr. R. N. Barnett, F.S.A.A., the chairman of the District Society, presided, the principal guest was Sir Charles Bartlett.

Mr. Barnett, in welcoming Sir Charles, said that he was the managing director of Vauxhall Motors, a company associated with General Motors Corporation. In his younger days Sir Charles had himself approached management through the field which his present audience felt to be the correct one—namely, that of accountancy. Therefore, in whatever he said he would be speaking in a language which they understood.

Sir Charles Bartlett said that over the last forty years there had grown up a defensive attitude towards industry. Men had been taught to protect what they have got rather than indulge in the joy of competition and the job of making two blades of grass grow where only one grew last year.

Let them cast their eyes around them. Let them look at the lamp bulbs, the materials for building, and so on, and reflect on the rings and boundaries that had been built up round these things and upon the policies of price-fixing in which industries had indulged. There they had the tragedy of Britain's economic position.

What of the future, and what was the accountant's part? It seemed to him, said Sir Charles, that the accountant had a very important part to play in this situation. In most cases he was a very confidential servant of the directors of a company, and he often had—as he knew personally to his cost—a very important "no" that he could put in. He appealed to them not to let industrialists have quite so much "no"; let them have a little positive guidance rather than the "check guidance" they had given up till now.

It was a very easy thing in accounting to record the things that were done and from that to say whether they were done wisely or not. But what he would like to see them do was to record vividly and with imagination what things might be if they had been done. Let them have a balance sheet made up of what might have been rather than what had been. It seemed to him that the story of British industry in the last thirty

years was the pathetic story of what might have been if somebody had only painted the picture in that positive sense instead of in the pure recording sense.

As an instance of what he had in mind, said Sir Charles, he would mention that in his company they had been trying to follow a policy of continuity of employment. On one occasion before the war it brought them to a grim situation where they had 3,000 men with nothing to do for about three weeks. They had seen it coming and had arranged with the men that all restrictions and scruples should be thrown overboard. They planned to do a lot of work around the place—painting, road-making and so on—and the men agreed to do it rather than be put off. At the end of that time they found two results: first, that as the men had been working in the open air their health had benefited; and secondly, that as soon as they were ready they were able to bring back skilled men to their own jobs. For the first time in their history they were in full production within four days instead of struggling along for six or seven weeks. But the records showed that it cost them perhaps £25,000 to carry out that scheme. What the records might have shown was the saving made by being able to bring men back on to the jobs they knew after three weeks outside. Clearly, from a management point of view the scheme had cost the company nothing; but the books said it cost them £25,000. That was a short and simple illustration of the imaginative account he had in mind. He hoped there would be more of that constructive line of thought from accountants, because so much depended now on how they presented themselves to their public and to the people amongst whom they worked.

Sir Thomas Keens, J.P., D.L., F.S.A.A., proposed a vote of thanks to Sir Charles for his highly original talk.

Sir Thomas trusted that on some future occasion they might hear more of Sir Charles's fugitive thoughts. They were controversial, and the Students' Society and the District Society might spend a profitable evening in debating them—and might come to very different conclusions from Sir Charles. For instance, said Sir Thomas, he confessed that he could hardly imagine an accountant getting down to one of those flights of imagination on a set of

accounts, showing how things would have been had something else been done. But he suggested that there was not a single accountant there who had not wished he had been able to do that very thing many times in the past.

### DISTRICT SOCIETIES AND THE NATIONAL ECONOMY

THE INCORPORATED ACCOUNTANTS' SOCIETY of Manchester and District held a dinner at the Midland Hotel, Manchester, on October 28. The chair was occupied by Mr. C. Yates Lloyd, President of the District Society, and the company included the deputy Lord Mayor of Manchester (Alderman Miss M. L. Kingsmill Jones, C.B.E., M.A., J.P.); the Right Hon. Sir John Anderson, G.C.B., G.C.I.E., M.P.; Mr. A. Stuart Allen, F.S.A.A. (President of the Society of Incorporated Accountants); Mr. R. B. Barclay, J.P. (Director of the Chamber of Commerce and Chairman of the Cotton and Rayon Merchants' Association); Sir Leonard Stone (Vice-Chancellor, County Palatinate of Lancaster); the Mayor of Salford (Mr. C. R. V. Haynes, J.P.); the Mayor of Bolton (Alderman Thomas Glaister, J.P.); Mr. J. H. Jones, M.P.; Reverend A. H. White, M.A., B.D. (Warden of Hulme Hall); and many guests representative of the professions, commerce, banking and industry.

Mr. C. Yates Lloyd, President of the District Society, proposed "The City and Trade of Manchester and District." He said that real grit and real work were required to enable Manchester and district to keep that prosperity which their forefathers worked so hard to gain, and which was already showing signs of fading away.

Incorporated Accountants were in a position to know both sides of industry, and they knew and did not forget the human side, but the fact remained that every set of accounts inspected showed rising costs that must be stopped. Also the lack of incentives, which were so essential, was continually before them. It would still appear that the extreme seriousness of the position was not fully appreciated.

Mr. Yates Lloyd suggested the appointment of a committee of three—a prominent industrialist with wide experience; a trade union leader of the old school; and an accountant, with power to slash government expenditure irrespective of its nature, but primarily to stop the enormous waste they knew was going on. He suggested that Lancashire should start a movement for more work for the same money but with a bonus system as an incentive to production. Many industries in that area were starved of capital, not because of the amount taken out by the industrialists or

by shareholders but because of the amount that went out in taxation.

The Deputy Lord Mayor of Manchester (Alderman Miss Mary Kingsmill Jones), responding, said that this was an age of planning. Without some sort of planning there was chaos and confusion, but plans should be flexible and should change and develop as time went on. If Manchester had not looked far afield half a century ago there would have been no Manchester Ship Canal, and to help the city in its housing difficulties they were now having to look afield in Cheshire because in a few years there would be no more building land left within the city.

Mr. R. B. Barclay, director of the Manchester Chamber of Commerce and chairman of the Cotton and Rayon Merchants' Association, who also responded, said the Government must play a great part in national and international business affairs. He could not help but feel that the nation had suffered, more than anything else from a business point of view, from weak and inefficient leadership. The solution to our problems was competition. Since the war we had had full employment. He would not advocate going back to mass unemployment, but he could not help but think that a small measure of unemployment—possibly 5 per cent.—would be greatly to the benefit of our national economy. A lowering of taxation would give more incentive to both employer and employee.

The Right Honourable Sir John Anderson, G.C.B., G.C.I.E., M.P., proposing the toast of "The Society of Incorporated Accountants," said that he had his schooling at an institution founded by a prosperous Edinburgh merchant who had received a training in accounting and finance in Holland. He was so impressed by the value of such a training that in the deed of foundation of the school he stipulated that all pupils should have some instruction in book-keeping. The deed was drawn in Latin, and he described the subject as *res rationaria et arithmeticæ* which he (Sir John) took to mean, "Getting sense out of figures." Was not that the science of the accountants' profession?

With the growing complexity of human affairs there was ever-increasing scope for the man whose business it was to present facts in their most intelligible form. That was not the same thing as presenting facts in their most attractive form, and no doubt it was the thought that some business men (not, of course, in Manchester) might have an excessive leaning in that direction which inspired some of the new provisions of the Companies Act.

Mr. A. Stuart Allen (President of the Society of Incorporated Accountants), responding, said that the drastic reduction in

the dollar-sterling rate of exchange had been followed by the Prime Minister's statement and two days' debate in the House of Commons. The speeches had failed to convey any disquieting conviction that only intense and persisting endeavour could avert disaster. Bewilderment and apathy persisted.

Our economic structure, conditioned by a bygone prosperity, had become an anachronism. Novel methods, new products, fresh markets must be canvassed in an attempt to convince the nations that British goods were as essential to their welfare as were the resultant imports to our own survival. If we failed, the oft-repeated threat of a lower standard of living would prove but a euphemism for semi-starvation throughout the land and famine in the cities.

Incorporated Accountants by their training and experience could examine objectively business of all types and sizes: this attitude was equally applicable to the national economy. Moreover, they were not identified either with labour or with capital. The District Societies could therefore become centres for the dissemination of balanced views for the guidance of all sections of the population. He begged them to undertake this valuable service to the country.

The President paid tribute to the excellent services rendered by District Societies to members and to the profession, and he associated with that appreciation the name of Mr. C. Yates Lloyd, President of the Manchester Society and for many years its devoted Secretary.

#### COUNCIL MEETING

OCTOBER 18, 1949

Present: MR. A. STUART ALLEN, PRESIDENT (in the chair), Mr. C. Percy Barrowcliff (Vice-President), Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. Henry Brown, Mr. Alex. Hannah, Mr. L. C. Hawkins, Mr. C. A. G. Hewson, Mr. Walter Holman, Sir Thomas Keens, Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. James Paterson, Mr. T. Harold Platts, Miss P. E. M. Ridgway, Mr. Henry Smith, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. A. H. Walkey, Mr. Richard A. Witty, Mr. R. E. Yeabsley and the Deputy and Assistant Secretaries.

#### COUNCIL

The following members were appointed to occasional vacancies on the Council in accordance with the provisions of Article 48: Mr. Edward Baldry, London; Mr. Alfred Harman Edwards, Dorchester; Mr. Hugh Oliver Johnson, Bath; Mr. Thomas Holme Nicholson, London.

#### REPORTS OF COMMITTEES

The reports of the Finance and General

Purposes, Disciplinary, Examination and Membership, District Societies and Development Committees and the Board of Examiners were received.

The Council considered applications for election to Fellowship, for admission to membership, for reinstatement in membership and for registration as members in retirement.

#### MEETINGS AND COURSES 1950

It was tentatively decided that meetings and courses should be held on the following dates in 1950:

May 24. Annual general meeting.

May 25. Branches and District Societies Conference.

June 23 to 26. Taxation Course at Ashridge.

September 14 to 19. Course at Balliol College, Oxford.

GRANTS TO BRANCHES AND DISTRICT SOCIETIES  
Grants to Branches and District Societies for 1949-50, aggregating approximately £7,100, were approved.

#### TAXATION OF TRADING PROFITS

A memorandum on Taxation of Trading Profits, prepared by the Research Committee, was approved for submission to the Millard Tucker Committee. The Council expressed appreciation of the assistance given to the Research Committee by District Societies and by Mr. J. E. Spors (Newcastle-upon-Tyne); Mr. C. Yates Lloyd (Manchester); Mr. Ivor P. Ray (West of England); Mr. Robert H. Taylor (Bury St. Edmunds); Mr. D. O. Bailey, Mr. Eric Green and Mr. J. A. Jackson (London).

#### SOUTH AFRICAN COMMITTEES

The Council received the minutes of recent meetings of the South African Northern and Eastern Committees.

#### RESIGNATIONS

A report was received of the resignation of the following members:

From January 1, 1949.

Brandon, William Harold (Fellow), Belfast.

Garratt, Oliver Douglas, Col., M.C. (Associate), Wadebridge.

Harper, Philip Massingham (Associate), Guildford.

Lissett, Tom Nichols (Associate), Ilkeston.

Rogers, Ronald William (Associate), Southport.

From January 1, 1950.

Crick, Kenneth Maynard (Associate), Ruislip.

Huggan, John (Associate), Pudsey.

McCready, William (Associate), Toronto.

Riding, William Scott (Associate), Worsley.

Wall, William Ernest, I.S.O. (Fellow), St. Annes-on-Sea.

#### DEATHS

The Council received with regret a report of the death of each of the following

members :  
Batey, Robert Lancelot (Associate),  
Carlisle.  
Bompas, George Gwinnett (Fellow),  
Nairobi.  
Buzacott, Frederick William (Fellow),  
London.  
Clarkson, Geoffrey Teignmouth (Fellow),  
Toronto.  
Davies, Frederick William (Associate),  
Prestwich.  
Dunlop, Robert Thomas (Fellow),  
Glasgow.  
Finney, Robert Chesney, M.B.E. (Associate),  
London.  
Foster, Samuel Ernest (Fellow), Ashford,  
Kent.  
Gatley, Edward (Fellow), Winchester.  
Griffin, George Reginald (Fellow), Birmingham.  
Harris, Edward Cecil (Fellow), Liverpool.  
Hunter, Clement Albert John (Associate),  
Buckhurst Hill.  
Jones, Frederick (Associate), Manchester.  
Keith, Robert Davie Lawson (Fellow),  
Dundee.  
Kennedy, Cyril Noble (Associate),  
Cockermouth.  
McCarthy, Charles Patrick, M.COM.  
(Fellow), Cork.  
Maitland, Sir Adam, J.P. (Fellow),  
Henley-on-Thames.  
Reynolds, Albert John (Associate),  
Luton.  
Richardson, Joseph Samuel (Fellow),  
Johannesburg.  
Roy, Abani Mohan (Fellow), Calcutta.  
Snell, Arthur Henry Parkhouse (Associate),  
Johannesburg.  
Tayler, Reginald Lawrence (Fellow),  
London.  
Thompson, Ernest Francis (Associate),  
London.

The following resolution was adopted :

The Council received with great regret  
intimation of the death of Mr. Robert  
Thomas Dunlop, Fellow, who had been a  
member of the Society since 1902. Mr.  
Dunlop had been a member of the Council  
of the Society from 1935 to 1946 and of the  
Scottish Council from 1910 until a few weeks  
before his death. The Council recorded its  
tribute to Mr. Dunlop and to his devoted  
and valuable work not only for the Society  
but also for the Glasgow Students' Society, of  
which he was the first President upon its  
formation in 1907.

It was resolved that the death in Burma  
in 1942 of Mr. Clarence Francis George,  
L.S.O. (Fellow), must now be presumed.

SIR JAMES MARTIN MEMORIAL EXHIBITION  
The Sir James Martin Memorial Exhibition  
in respect of the May, 1949 examination  
was awarded to John Vertue Wilson,  
articled to Mr. A. S. Hitchings, A.S.A.A.,  
(Martin, Farlow & Co., London).

## INCORPORATED ACCOUNTANTS' LODGE

THE INSTALLATION MEETING WAS HELD ON  
October 25 at Freemasons' Hall, London,  
W.C.2. W. Bro. R. J. Parker installed  
his successor, Bro. A. V. Hussey.

W. Bro. Hussey invested the following  
officers : W. Bro. R. J. Parker, I.P.M. ;  
W. Bro. R. N. Barnett, s.w. ; Bro. C. V.  
Best, j.w. ; W. Bro. W. J. Crafter, Treasurer ;  
W. Bro. A. S. Darr, Secretary ;  
W. Bro. H. A. R. J. Wilson, d.c. ; Bro. J. A.  
Jackson, j.d. ; W. Bro. E. J. P. Garratt,  
A.D.C. ; W. Bro. C. A. Holliday, Almoner ;  
W. Bro. A. S. Wagstaff, Organist ; Bro.  
J. C. Chaumeton, I.G. ; W. Bro. W. F.  
Edwards, Bros. E. B. Trimmer, G. J.  
Hakim, G. F. D. Rice, Stewards ; W. Bro.  
A. C. Chitty, Tyler.

Amongst the members present were W.  
Bro. Major M. J. Faulks, P.G.D. ; W. Bro.  
R. A. Witty, P.G.S.T.B., and W. Bro. J. C.  
Fay, L.G.R. A large number of visiting  
brethren were present, including the W. M.  
of the Chartered Accountants' Lodge, who  
responded to the toast of the visitors, and  
the W.M. of the Sempers Vigilans Lodge.

The Secretary of the Lodge is Mr. A. S.  
Darr, of 35, New Broad Street, E.C.2.

## DISTRICT SOCIETIES

### BIRMINGHAM

#### SYLLABUS OF LECTURES, 1949-50

LECTURES WILL COMMENCE AT 6.15 P.M. AND  
be held at the Law Library, Temple Street,  
Birmingham, unless otherwise indicated.

Joint lectures will be held at the Chamber  
of Commerce, New Street, Birmingham, at  
6.30 p.m.

Students' Discussion Group meetings will  
be held at Queen's College Chambers,  
Paradise Street, Birmingham, at 6.15 p.m.

Wolverhampton lectures will be held at  
the Star and Garter Royal Hotel, at 6.15  
p.m.

Shrewsbury lectures will be held at the  
Morris Hall, Bellstone, Shrewsbury, at  
6.30 p.m.

Arrangements have been made to hold  
several lectures jointly with the Students'  
Societies of the following organisations :

The Association of Certified and Cor-  
porate Accountants.

The Institute of Cost and Works  
Accountants.

The Chartered Institute of Secretaries.

The Institute of Chartered Accountants.

The Faculty of Commerce, University of  
Birmingham.

1949

December 2 : "Examination Problems in  
Accountancy," by Mr. A. E. Langton,  
LL.B., F.C.A., F.S.A.A. At Shrewsbury.

December 2 : Students' Discussion Group.

December 9 : "Share Valuation for Estate

Duty and Other Purposes," by Mr. A. E.  
Langton, LL.B., F.C.A., F.S.A.A.

December 16 : "Accountancy Problems,"

by Professor D. Cousins, B.COM., A.C.A.

December 30 : Students' Discussion Group.

1950

January 6 : "Valuation of Assets for Death  
Duty Purposes," by Mr. Derek E. Wilde,  
LL.B., C.A.I.B.

January 6 : "Statutory and Equitable  
Apportionments," by Mr. R. Glynne  
Williams, F.C.A., F.T.I.I. At Shrewsbury.

January 13 : "Standard Costs," by Mr.  
W. E. Harrison, F.C.W.A.

January 20 : "The Company and its  
Foreign Business," by Mr. W. E. Dawson,  
CERT. A.I.B., A.M.I.E.X.

January 27 : Students' Discussion Group.

January 27 : "The Companies Act, 1948,  
and its implications as regards Duties of  
Auditors," by Mr. A. E. Langton, LL.B.,  
F.C.A., F.S.A.A. At Wolverhampton.

February 3 : "Principles of Bankruptcy  
Law," by Mr. C. L. Lawton, M.Sc. (ECON.),  
Barrister-at-Law.

February 10 : "Investigations and Report  
Writing," by Mr. R. Glynne Williams,  
F.C.A., F.T.I.I. Joint lecture.

February 17 : "Accounting Provisions of  
the Companies Act, 1948," by Mr. C. H.  
Tranmer, B.COM., F.S.A.A.

February 24 : "The Way the New Com-  
pany Law is Shaping," by Professor Hugh  
Goitein, LL.B., M.COM.

February 24 : "Standard Costs," by Mr.  
W. E. Harrison, F.C.W.A. At Shrewsbury.

March 3 : Lecture by Professor Hugh  
Goitein, LL.B., M.COM. (Details later.)  
Joint lecture arranged by the University  
Commerce and Social Science Society.  
At Birmingham University, Edmund  
Street.

March 10 : "Basis of Assessment under  
Schedule 'D,'" by Mr. Percy F.  
Hughes, A.S.A.A., A.C.I.S., At Shrewsbury.

March 10 : Students' Discussion Group.

March 17 : "Practical Costing," by Mr.  
W. E. Harrison, F.C.W.A. Students are  
invited to attend by the Students'  
Section of the Institute of Cost and Works  
Accountants. At Birmingham Chamber  
of Commerce.

March 24 : "Some Points on Execu-  
tive Accounts," by Mr. Derek E. Wilde,  
LL.B., C.A.I.B. At Wolverhampton.

March 24 : Students' Discussion Group.

March 31 : "The Manager Asked for  
Security," by Mr. T. E. Hurst.

## MANCHESTER

#### SYLLABUS OF LECTURES, 1949-50

1949.

December 14 : Joint Meeting with the  
Chartered Institute of Secretaries, Man-  
chester and District Branch. "Profit

Motive in Industry," by Mr. J. Hobbs, F.C.I.S. Chartered Accountants' Hall, Spring Gardens, Manchester, 2, at 6.30 p.m.

1950

January 26 : Joint meeting—details later. February 10 : Joint meeting with the Manchester Society of Chartered Accountants.

"Great Britain's Economic Position," by Mr. C. Ralph Curtis, PH.D., M.Sc. (ECON.), F.C.I.S. Midland Hotel, at 6 p.m.

March 3 : Joint meeting arranged by the Manchester Society of Chartered Accountants. "Loss of Profits Assurance," by Mr. William Penny. Chartered Accountants' Hall, at 6 p.m.

March 10 : "Finance Act, 1949," by Mr. A. E. Langton, LL.B., F.S.A.A., F.C.A. Midland Hotel, at 6 p.m.

April 17 : Joint meeting arranged by the Manchester Society of Chartered Accountants. "Indirect Expenditure," by Mr. Raven Hill, A.C.A. Chartered Accountants' Hall.

September 8-11 : Students' Residential Refresher Course.

#### SHEFFIELD

THE ANNUAL GENERAL MEETING WAS HELD on October 18.

The report and accounts were adopted. The President, Mr. C. S. Garraway, F.S.A.A., referred to the additional library facilities now provided and the institution of Saturday morning classes for students.

Mr. J. W. Richardson, F.S.A.A., was appointed President. In investing him with the Presidential badge, the retiring President, Mr. C. S. Garraway, referred to the splendid services rendered by Mr. Richardson as Honorary Secretary for 22 years and in addition as Vice-President for the last two years.

Mr. W. H. Higginbotham, F.S.A.A., was appointed Vice-President. The retiring members of the Committee were re-elected, and Mr. Arnold Graves, F.S.A.A., was re-elected Auditor.

Mr. C. H. Kershaw, A.S.A.A., Fargate House, Sheffield, 1, was appointed Honorary Secretary and Treasurer in succession to Mr. J. W. Richardson.

#### ANNUAL REPORT

Fifteen meetings and lectures were held during the year. A dinner was held on February 18, 1949, at which the District Society was honoured by the presence of many distinguished guests.

Six students were successful in the Final Examination of the Society and three in the Intermediate.

On October 1, 1948, the library of this District Society was merged with that of the local centre of the Institute of Chartered Accountants and housed in the Law Society's Library. Members of this District

Society are now entitled to borrow books from the Joint Library of the Institute and Society, and to refer to books in the Law Library. These facilities will be of material assistance, and it is desired to pay tribute to the committees of the local branches of the Law Society and Institute of Chartered Accountants for their co-operation.

Student members of this Society are now entitled to attend Saturday morning classes held jointly with students of the Institute in the Law Society Rooms. The lectures cover the major portion of the syllabus of the examinations, and Mr. Arnold Graves has proved a popular choice as a lecturer in accountancy.

The Secretary of this District Society was appointed by the committee as the local representative of the Incorporated Accountants' Benevolent Fund, and it is hoped that more members will make some contribution towards this excellent cause.

The membership at March 31, 1949, comprised 152 Fellows and Associates and 180 students.

#### SOUTH WALES AND MONMOUTHSHIRE

THE ANNUAL MEETING WAS HELD ON JULY 22. The President, Mr. A. D. Thomas, referred to the keen interest shown by the student members. The lectures arranged by the Cardiff and Newport sections showed the able manner in which the secretarial duties had been carried out by Mr. J. Alun Evans (Cardiff) and Mr. R. T. Nicholas (Newport). He congratulated Mr. G. H. Down (Cardiff), who at the May, 1949, Intermediate Examination secured the Second Place Certificate and Second Prize.

The following officers were elected : President, Mr. Richard R. Davies, F.S.A.A. ; Vice-President, Mr. J. D. R. Jones, F.S.A.A. ; Hon. Secretary, Mr. Tudor Davies, F.S.A.A. ; Hon. Auditors, Mr. Guy Ross, F.S.A.A., and Mr. W. I. J. T. Rodda, F.S.A.A.

Mr. R. Wilson Bartlett informed the meeting that for health reasons he was compelled to resign from membership of the Committee. His resignation was accepted with the greatest regret. Many members spoke to the excellent work carried out by Mr. R. Wilson Bartlett for the profession and for Incorporated Accountants in South Wales and Monmouthshire. His loyalty to the Society and his faith in the high status of Incorporated Accountants were an inspiration to his colleagues. It was resolved that Mr. R. Wilson Bartlett be elected the first Life Vice-President of the District Society.

The meeting concluded with a vote of thanks to Mr. A. D. Thomas, the retiring President.

#### TYRKSHIRE

##### SYLLABUS OF LECTURES, 1949-50

1949

December 7 : "Companies Act, 1948 (Legal provisions dealing with Accounts)," by Mr. R. E. Chadwick, LL.B. 1950

January 17 : "Recent Taxation Developments," by Mr. J. S. Heaton, A.S.A.A.

February 14 : "Economics," by Professor J. H. Richardson, M.A., PH.D.

March 10 : Joint Meeting with other professional bodies. "Behind the Headlines," by Mr. Bernard Newman. Albert Hall, Cookridge Street, at 7 p.m. Admission by ticket.

March 25 : "Examination Problems in Executorship," by Mr. R. Glynn Williams, F.C.A., F.T.I.I., at 10.45 a.m.

Meetings are held at the Hotel Metropole, King Street, Leeds, 1, at 6.15 p.m. except where otherwise stated.

#### PERSONAL NOTES

Mr. Norman Sacker, F.S.A.A., Bournemouth, has taken into partnership Mr. Harold P. T. Copper, A.S.A.A. The practice will be continued under the firm name of Norman Sacker, Copper & Co., Incorporated Accountants.

Mr. T. Kenneth Venter, A.S.A.A., has commenced public practice under the style of T. K. Venter & Co., Incorporated Accountants, at 12, Aysgarth Avenue, Hull.

Messrs. R. Duncan French & Co., Incorporated Accountants, Liverpool, have admitted to partnership Mr. J. Duncan French, A.C.A., A.S.A.A., son of the senior partner.

Messrs. Walter J. Smith & Son, Incorporated Accountants, London, have taken into partnership Mr. J. Alistair Fordyce, A.S.A.A.

Messrs. Silversides, Slack & Barnsley, Incorporated Accountants, London, have taken into partnership Mr. F. I. Read, F.S.A.A.

Mr. C. Yates Lloyd and Mr. W. Spencer Newton, Incorporated Accountants, announce that the partnership existing between them in the firm of Lloyd, Piggott & Co., Manchester, ceased on October 31. Mr. Lloyd has taken into partnership Mr. I. L. Berry, D.F.C., A.S.A.A., who has been a member of the staff for some years. They will practise under the same firm name. Mr. Newton is continuing in practice at the same address for the time being.

Mr. Frank Rowlands, chartered accountant, and Mr. B. G. Dumont, Incorporated Accountant, and Mr. B. G. Dumont, Incorporated Accountant, have entered into partnership. Mr. Rowlands is the surviving partner of Messrs. C. H. Tolley, Rowlands & Co., London, and the style of the firm will remain unchanged.

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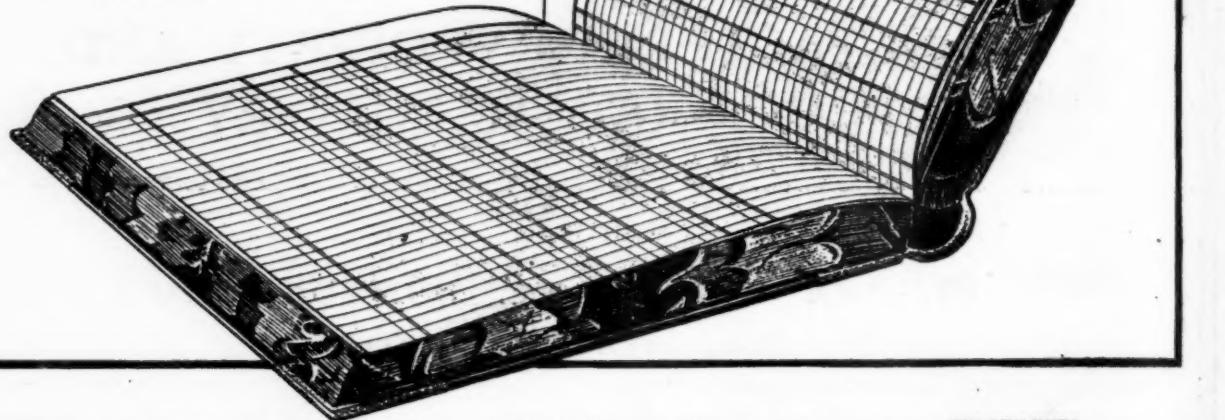
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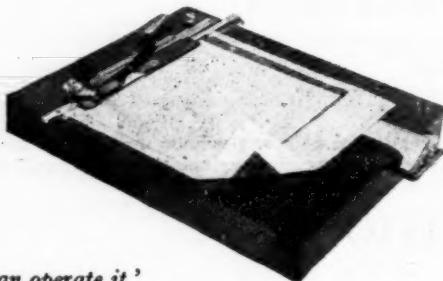
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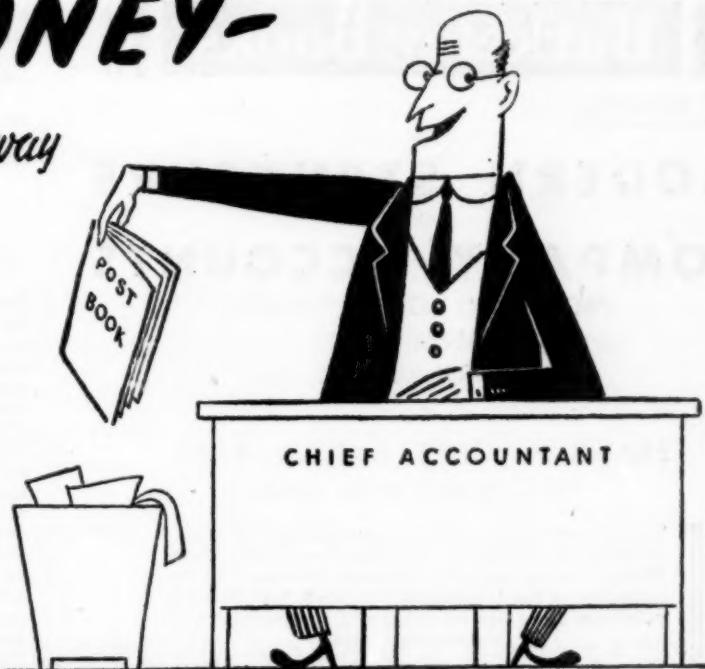
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(Continued from page xiv)

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